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ABSTRACT

These four Congressional hearings investigate the role of the federal government in assisting long-term, structurally unemployed workers and in encouraging private sector efforts to retrain Americans. Witnesses who present statements, prepared statements, and articles represent the Urban Institute, Washington, District of Columbia; Forecasting International, Ltd., Arlington, Virginia; United Automobile, Aerospace, and Agricultural Implement Workers of America; Massachusetts Institute of Technology; Secretary of Labor of the State of Delaware; Board of Technical and Comprehensive Education, State of South Carolina; Director, Employment Development for the State of California; Labor Relations Planning and Employment Office, Ford Motor Co.; Employment and Training Committee, Chamber of Commerce of the United States; Committee for Economic Development; the National Alliance of Business; TRW, Inc.; Harvard University; National Bureau of Economic Research; and the National Center for Research in Vocational Education. (YLB)

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INDUSTRIAL POLICY: THE RETRAINING NEEDS OF THE NATION'S LONG-TERM STRUCTURALLY UNEMPLOYED WORKERS

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-EIGHTH CONGRESS

FIRST SESSION

SEPTEMBER 16, 23, AND 26, AND OCTOBER 26, 1983

Printed for the use of the Joint Economic Committee

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INDUSTRIAL POLICY: THE RETRAINING NEEDS OF THE NATION'S LONG-TERM STRUCTURALLY UNEMPLOYED WORKERS

The Magnitude and Scope of the Retraining Task Confronting the American Economy

FRIDAY, SEPTEMBER 16, 1983

Congress of the United States,
Joint Economic Committee,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room SD–628, Dirksen Senate Office Building, Hon. Daniel E. Lungren (member of the committee) presiding.

Present: Representative Lungren.

Also present: Robert Premus and Mary E. Eccles, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE LUNGREN, PRESIDING

Representative Lungren. Good morning. I want to thank all the witnesses for coming on our rather beautiful fall-like day here in Washington. I hope that we can engage in some good debate about a very important issue. We have attempted to try and get a number of witnesses who have somewhat different points of view on this issue. I hope that we can engage in some debate so we can see if we can establish some consensus on parts of the retraining issues.

Without a doubt, the problem of long-term structural unemployment presents a formidable challenge to the Nation over the remainder of this decade.

The Bureau of Labor Statistics has presented testimony suggesting that the greatest impact of postwar, baby boom entrance into the job market is behind us, as is the tremendous acceleration of women entering the job market as a percentage of the population. And it means that those demographic changes having already been confronted, we will not have to deal with that in the future.

Estimates vary on the number of displaced workers in the U.S. economy; that is, those workers who lose their jobs to foreign competition, shifts in the structure of the American economy or technological change and who lack the necessary skills for reemployment at relatively comparable pay scales within a reasonable period of time.

Fortunately, a sustained economic recovery and a sharp decline in labor force growth will take considerable pressure off labor markets in the decade ahead. But the purpose of the hearing today is to quantify the magnitude and nature of the long-term structurally unemployed in the country. Each of the four hearings which have been scheduled will ask what the role of the Federal Government should be to assist these workers and to encourage private sector efforts in retraining Americans.

In a recently completed series of hearings on U.S. industrial policy, witness after witness warned the Joint Economic Committee of the many insurmountable pitfalls of industrial policy. A clear consensus emerged from these industrial policy hearings that improved training opportunities are necessary to reduce structural unemployment and to keep employed workers current.

To follow up on this theme, the Joint Economic Committee is now embarking on this series of four additional hearings to investigate the role of job training to help workers adjust to a rapidly changing economic environment.

Many important questions must be answered. What the role of the Federal Government should be, certainly must be answered by the policymakers here in Washington, D.C. Such questions as: What is the magnitude and the scope of the training problem? Is the new Job Training Partnership Act adequate to meet the challenge? What can industry and workers do to improve labor skills? For what jobs should workers be trained and what skills need to be acquired by workers to be competitive in the future? What we will seek in this series of hearings is to find answers to these and related questions. The answers are necessary to determine if the Nation really does have a training problem. If so, how serious is the problem and what can be done about it? And in what role can the Federal Government play in attacking these problems?

As we embark on this path, there is little doubt that the answers we seek are not easy ones. However, the importance demands greater congressional understanding of the nature of the problem. Too often in the past, I fear, Federal efforts have been high on praise but short on results.

I would like to repeat my welcome to the expert panel of witnesses assembled today to discuss this important issue. I would like to request that our witnesses attempt to keep their oral statements to 10 minutes. The prepared statements that you have will be made a part of the record, whether you actually give them or not.

And I would like to use this opportunity today to have some discussion among the four of you on certain points that will be brought up in your individual statements.

I understand Mr. Cetron must leave by about 11:30. Perhaps I will try to remember to direct my first questions to you so that we might make sure that we get the benefit of your statement in answer to some questions.

The first witness is Mr. Marc Bendick, who is a senior research associate of the Urban Institute. Mr. Bendick.

STATEMENT OF MARC BENDICK, JR., SENIOR RESEARCH ASSOCIATE, THE URBAN INSTITUTE, WASHINGTON, D.C.

Mr. BENDICK. Thank you, Congressman Lungren.

I come before you this morning as a nonpartisan research economist who has spent much of the past 3 years examining the problems of worker dislocation, industrial policy, and worker retraining.

My assignment this morning is to discuss the nature and origins of the problem of long-term structural unemployment and then to set forth an agenda for Federal initiatives to contribute to its reduction.

Let me begin by suggesting a working definition of structural unemployment. It is the joblessness which remains when national unemployment has been brought as low as it can be by macroeconomic policies without retriggering unexceptable inflation. As this committee is, of course, well aware, the limits of macroeconomic policy have receded during the 1970's and 1980's for a variety of reasons. While once economists boldly targeting 4 or 4½ percent as an achievable noninflationary unemployment rate, we now meekly speculate one about as high as 7 or 8 percent. A 7-percent unemployment rate translates into something more than 7 million structurally unemployed workers.

Who are these 7 million? And among them, who are the 3 million who have joined these ranks as the full employment target has drifted upward from 4 to 7 percent? One candid answer to this question is that they are dislocated workers, the familiar middle class solid citizens who were formerly employed at high wage rates in such smokestack industries as steel and autos.

Carefully statistical studies suggest that this answer is generally incorrect. There are, of course, several million such workers currently on long-term layoff, but the vast majority of them are cyclically unemployed, under the combined effects of the deepest recession since World War II, a period of very high real interest rates, and an overvalued U.S. dollar—a story with which this committee is again very familiar.

My own research has estimated that only approximately 100,000 workers fall in the category of truly dislocated workers, in the sense of those who have permanently lost their jobs due to structural change in the economy and who have joined the ranks of the long-term unemployed who would remain largely untouched by national economic recovery. This number represents less than 2 percent of the 7 million structurally unemployed, on whose problems these hearings are focused.

Who then are the majority of the structurally unemployed? The list is familiar to anyone involved with employment and training programs over the past few decades: Inner-city minority; high school dropouts; female single parents dependent upon public assistance; low-skilled, low-wage, working poor adults; recent immigrants; and so forth. These groups stand at the end of the hiring queue, and as the full unemployment rate has moved from 4 to 7 percent, most of the main stream, midcareer workers on layoff from manufacturing have moved into that hiring queue ahead of them.

Now, lest this discussion seem hopelessly old-fashioned, let me hasten to add that I am by no means denying the reality of rapid structural changes in the American economy. New patterns of international trade and new technology are appearing with accelerating rapidity, and profound changes are underway in the mix of firms and industries, in the economy, in the mix of occupations required to staff these firms, and even in the mix of skills which defines each occupation. But the process by which these changes occur is both slower and more incremental than is often evisioned. And the locus of much of this change is among the employed rather than the unemployed.

Let me illustrate this general point with some information specifically on manufacturing. The most important fact about this sector of the economy is that the total number of manufacturing jobs in the United States, recession aside, has not declined over the past several decades and appears not likely to decline significantly over the next decade. Employment in manufacturing has only represented a declining proportion of all jobs because the service sector has grown faster than manufacturing, not because the manufacturing sector has failed to grow. The implication of this is that for most workers currently on layoff from manufacturing, there will be opportunities to return to manufacturing and no particular need to retrain to switch careers.

One particularly well-publicized aspect of the manufacturing employment issue is that of robotics, the replacement of relatively low-skilled mass production workers by smart and flexible machines. But careful estimates of the total job displacement likely to arise from that source forecast that over the next decade robots will directly substitute for only about 1 worker out of 1,000 out of the manufacturing work force each year. Given the typical voluntary turnover in manufacturing jobs may run 25 percent or higher, such replacement can typically be handled by attrition rather than layoff.

The implementation of robots in the automobile industry also provides an interesting example of the process by which occupations evolve and workers are retained with new technologies. As automobile manufacturers have installed robots, they have selected high seniority electricians and millwrights already employed in their plants, sent them to the robot manufacturer to receive a few weeks of training on the new machine, and thus obtained the trained work force they required, with neither displacement nor hiring.

This is representative of the predominant process by which the skills of the work force evolve—by retraining among the employed rather than the unemployed. And it is also representative of the magnitude of retraining which is typically involved. Most new technology evolves out of existing technology with strong linkages to the previous mode of work. A few days or a weekend in the classroom and a few weeks or a month of on-the-job learning-by-doing are typical of a level of investment involved to move a worker from the old to the new. Relatively few workers scrap an existing career, return to the classroom for months or years and emerge with an entirely new occupation.

One reason such incremental learning is generally sufficient is the slow rate at which the occupational composition of U.S. employment changes. In projections of job vacancies over this decade, the U.S. Bureau of Labor Statistics advises us there will be about 700,000 new job openings for secretaries, 500,000 for truckdrivers, 500,000 for nurses aides, and 500,000 for janitors. In the same era, the number of job openings created in all phases of the robotics industry will be 60,000 or less. New high tech occupations may have spectacularly high percentage growth rates, but the total number of jobs is very small compared to the numbers available in traditional fields.

The upshot of the picture which I have presented is that the structural unemployment problem facing the United States today exhibits considerable continuity with that experienced in past decades, rather than representing a new phenomenon generated by revolutionary shifts in the American economic environment. But old unsolved problems can still call for new approaches, and in my prepared statement, I present seven proposals of Federal Training employment initiatives, which I believe can significantly attack these problems. Let me briefly highlight four of those proposals.

My first proposal involves reinvesting in traditional employment and training initiatives for the disadvantaged who are, as I have suggested in this testimony, the vast majority of the structurally unemployed in the 1980's. During the past 20 years of programs for the disadvantaged, the United States has developed very effective and cost-effective models for delivering services to these persons. To cite only one well-known example, the Job Corps, careful evaluations of that program show that for every dollar invested in its efforts, society gets back $1.45 in increased employment and output and reduced crime and welfare dependency. Reinvestment in such cost-effective activities through expansion of their available budgets will directly address the main set of problems of structural unemployment.

A second high priority is youth. Here the Federal responsibility starts with the problems of disadvantaged youth, who require renewed efforts to prevent high school dropouts and upgrade the quality of education received by inner-city schools. In the case of youth, however, it extends beyond the disadvantaged population to encompass much of the entire next generation of workers. For while the pace of occupational evolution in the economy is sufficiently slow that most current adult workers can complete their working lives within their existing occupations and most economic changes can be absorbed by attrition, the next generation of labor market entrants will find relatively few opportunities to follow in their parents' footsteps in traditional manufacturing jobs. The children of blue-collar millworkers must be counseled and assisted to continue their education beyond high school.

Another point I have emphasized in my prepared statement is the role of training for the employed in the updating of skills which is required by economic and technological change. Annual expenditures by private employers on employee training in the United States totals some $30 billion per year, or some 10 times larger than the scale of the entire Job Training Partnership Act. And yet, large as this number is, it is still far less than the socially optimal level of investment for the American economy. Due to the presence of what economists refer to as "private market failures," the business sector and workers acting alone persistently underinvest in the skills needed for the American work force.

This training gap can be effectively addressed by new Federal initiative, a model for which can be found in the French experience. Since 1971, the French have operated a national system for financing worker training centered on what they refer to as an obligation to spend. Each employer has, by law, an obligation to expend 1.1 percent of its total wage bill on maintaining and expanding the skill level of workers. If the firm chooses to train its own workers and spends at least the 1.1-percent minimum, then its obligations are discharged. And the firm might as well do so, because if it fails to meet this obligation, then the unspent balance is due to the Government as a payroll tax. The experience in France is that employer investment training has expanded significantly and steadily in response to this incentive.

The approach modeled there constrasts in important ways with some other proposals to increase the level of training in the American work force, such as the "Individual Training Account." I have a number of difficulties with the ITA approach, but the most basic one is that it is oriented toward after-dislocation, long-duration, change-of-career retraining of the unemployed, rather than toward the preventive, continuous, incremental, employer-based training of the employed which is suggested here. The French approach avoids this difficulty, as well as avoiding the potential huge increases in the Federal budget which an ITA system might involve.

The average yearly amount of training received by a French worker under their system is 55 hours. This is precisely the pattern of incremental investment which needs to be promoted in the United States. And I should add as an aside, that the UAW "nickel-an-hour" program, which I think will be described by Mr. Friedman a little later, is a domestic version of very much the same spirit of what I have described, particularly in the long run, as it shifts its emphasis toward training not the currently dislocated workers but the currently employed.

Finally, Congressman Lungren, my last proposal focuses on the special adjustment problems of distressed communities. For while I have emphasized the relatively slow pace and incremental nature of economic change, it must also be recognized that some of this change occurs in a lumpy fashion when viewed from the local perspective—in the form of a mass layoff or large-scale plant closure which destroys overnight the economic base of a community. The vast majority of the 100,000 dislocated workers who will not be readily reemployed in an economy of nationwide full employment have lost their jobs in that fashion and live in communities in economic crisis such as Flint, Youngstown, Buffalo, or Detroit.

I would propose that assistance be provided to such workers through a new special Federal institution designed to provide large-scale rapid flexible, but short-term assistance to crisis locales in the wake of such economic disasters. This institution could be modeled on an innovative Canadian Government agency program called the manpower consultative service, which moves into a distressed local area for a short period, perhaps 6 to 9 months, to provide a very heavy dose of special adjustment assistance to both individual workers and their community.

Such assistance typically emphasizes job development and job placement, rather than skills retraining.

In his budget proposals for fiscal year 1984, President Reagan has asked for $240 million in funds for title III of the Job Training Partnership Act, the title addressing the needs of dislocated workers. This level of funding is designed to support services to about 90,000 workers. In light of my 100,000 worker estimate of the size of the dislocated worker problem, this level of funding seems appropriate, both for next year and the years following—particularly if that money is expended in the manner of placement oriented, short-term crisis intervention for which the Canadian manpower consultative service provides an excellent model.

The vast majority of employment and training funds which the Federal Government should provide in excess of that level of expenditure should be targeted on title II of the Job Training Partnership Act, that targeted on disadvantaged workers who are, as I pointed out, the prime problem in structural unemployment in the United States, even in the 1980's.

Thank you very much.

[The prepared statement of Mr. Bendick follows:]

PREPARED STATEMENT OF MARC BENDICK, JR.

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to participate in these hearings on the role of federal employment and training programs in attacking the problems of structural unemployment. I am Dr. Marc Bendick, Jr., an economist with the Urban Institute, which is a nonprofit, nonpartisan public policy research center in Washington, D.C.[1] This morning, I will first briefly discuss the nature and origins of the problems of long-term structural unemployment. Then I will set forth a seven-part agenda for federal initiatives which could contribute significantly to its reduction.

The Nature of Structural Unemployment

Let me begin by suggesting a working definition of structural unemployment which federal action should seek to attack: It is recurrent or long-duration involuntary joblessness which remains when national unemployment has been brought as low as it can be brought without retriggering unacceptable inflation. That is, it is the serious unemployment which remains when the limits of macroeconomic policies to promote prosperity have been reached.

As this committee is, of course, well aware, these limits have crept further out during the 1970s and 1980s, for a variety of reasons not all of which are fully understood. While once economists boldly targeted four or four and a half percent as an achievable unemployment rate, we now meekly speculate about one as high as six, seven, or even eight percent.[2] With a national workforce of 105 million, a seven percent unemployment rate translates into somewhat more than seven million structurally unemployed workers.[3] Who are these seven million? Among them, who are the three million who have joined these ranks as the full employment target has drifted upward from four percent to seven percent?

Reading the popular press or watching the evening news on television, one is immediately confronted by one candidate answer to this question: They are dislocated workers--midcareer, middle class, solid citizens who were formerly steadily employed at high wages in such mainstream smokestack industries as steel and autos but whose jobs have permanently disappeared under the combined onslaught of new production technology and foreign competition. Careful statistical studies suggest that this answer is generally incorrect. There are, of course, several millions of such workers currently on long-term lay off from America's manufacturing industries. But there are a number of reasons for believing that the vast majority of these are cyclically unemployed, under the combined effects of the deepest recession since World War II, a period of real interest rates of unprecedented heights, and an overvalued U.S. dollar cutting seriously into export sales. Manufacturing has provided more than 20 million jobs for a nonrecessionary American economy for the past several decades, and statistical analysis suggests that it will continue to do so for the upcoming decade at least.[4] My own research has estimated that only approximately 100,000 workers fall in the category of dislocated workers; i.e., those who have permanently lost their jobs due to structural change in the economy and have joined the ranks of the long term unemployed who would remain largely untouched by a national economic recovery.[5] This number represents less than two percent of the seven million structurally unemployed on whose problems these hearings are focused. They represent an even smaller proportion of the population of all persons experiencing labor market distress in the sense of either structural unemployment or employment at low-wage, unstable, low opportunity jobs.

Who then are the majority of the structurally unemployed and others experiencing labor market distress? The list is familiar to anyone involved with federal employment and training programs over the past two decades: inner-city, minority, teenaged high school dropouts; female single parent dependent on public assistance; low skill, low-wage "working poor" adults, many of them minorities; recent immigrants, both legal and illegal; and residents of stagnant and declining local areas, rural and urban.[6] These groups stand at the end of the hiring queue, hired last as labor markets tighten, let go first as demand slackens, and given fewest opportunity to advance or to develop skills while employed. As the full employment unemployment rate has moved from four percent to seven percent, the queue of jobseekers in front of them has lengthened. Most of the mainstream midcareer workers on layoff from manufacturing have moved into the hiring queue ahead of them, rather than joining them in the structurally unemployed end of the queue.

The Impact of Technological Change on Occupations

Lest this discussion seem hopelessly old-fashioned, let me hasten to add that I am by no means denying the reality of rapid structural change in the American economy of the 1980s. New patterns of international trade, new technology embodied in products and in production processes, and changing prices and consumer tastes are all appearing with startling and accelerating rapidity. In their wake, profound changes are underway in the mix of firms and industries in the economy, in the mix of occupations required to staff these firms, and in the mix of skills which define each occupation. The notion that each of us will work in two or three careers during our working lives is becoming a reality for more and more of us. But the process by which these changes occur is both slower and more incremental than is often envisioned; and the locus of much of this change is among the employed, not the unemployed.

Let me illustrate this general point with some examples from manufacturing. I have already mentioned the fact that the total number of jobs in manufacturing in the United States outside of a recession (about 25 million jobs) has not declined over the past several decades and appears not likely to decline significantly over the next decade. Employment in manufacturing has only represented a declining proportion of all jobs because the service sector has grown dramatically in the same period (from 47 million jobs to 65 million jobs).[7] The implication of this fact is that for most workers currently on layoff from manufacturing, there will be opportunities to return to manufacturing and no particular need to retrain and to switch careers dramatically in middle age.

One particularly well-publicized aspect of the manufacturing employment issue is that of robotics, the replacement of relatively low-skilled mass production workers by "smart machines." Certainly the technological advances in this field are noteworthy, with a projected 30 to 40 percent annual growth for the robot population engaged in manufacturing.[8] However, careful estimates of the total job displacement likely to arise from this source are dramatic largely in their smallness, not their largeness. The best available estimate, that provided by researchers at the W. E. Upjohn Institute for Employment Research, is that robots will directly substitute for between 100,000 and 200,000 workers over the decade of the 1980s. Taking the larger of these two figures, this estimate implies that 20,000 workers in manufacturing will face displacement each year--two workers out of 10,000 in the total U.S. work force, two workers out of 1,000 among today's unemployed, and one worker out of 1,000 among today's manufacturing work force. Such figures imply that no robot population explosion should be blamed as the primary source of today's unemployment; and they imply that planning for massive job displacement in the face of a robot population explosion would be an inappropriate national priority in the next decade. Even in the automobile industry, where the displacement effect will be largest, only between six and eleven percent of all operative and laborer jobs will be displaced by 1990--displacement at the rate of one percent of the unskilled worker force or less per year. Given that typical voluntary turnover in manufacturing jobs may run as high as 20 or 25 percent a year, such displacement can typically be handled by attrition rather than layoff.

The implementation of robots in the automobile industry also provides an interesting example of the process by which occupations evolve and workers are retrained to work with new technology. Several community colleges in the Detroit area have created new two year training programs in robotics operations and maintenance, aimed at pre-career students and at the unemployed. These innovative efforts certainly are worthwhile and will prove valuable in the long run. But in the short run, they have experienced great difficulty in placing their graduates. The reason is that as the automobile manufacturers have installed robots in their plants, they and their unions have selected high-seniority electricians and millwrights already employed in the plant, sent them to the robot manufacturers' plants to receive a few weeks' training on the new machine, and thus obtained the trained work force they required with neither displacement nor hiring. Similar patterns are observable in office situations, where word processing has revolutionized the production process for typed manuscripts. Employers did not lay off thousands of secretaries and hire thousands of word processors; rather, generally they invested in the one week's formal training (and multiple weeks of experimentation and practice) required to retrain their existing staff.

These two examples are representative not only of the predominant process by which the skills of the workforce evolve--via retraining among the employed rather than the unemployed. They are also representative of the magnitude of retraining which is involved. Most new technology evolves out of existing technology, with strong linkages to the previous mode of work. A few days or a week in a classroom, a few weeks or a month of on-the job "learning by doing" are typical of the level of effort to move a worker from the old to the new. Relatively few workers scrap an existing career, return to the classroom for months or years, and emerge with an entirely new occupation.

Part of the reason that such incremental learning is sufficient for keeping up with changes in the economy is that the job openings which are created by new technology do not necessarily require higher skill content than more traditional jobs; indeed, in many cases, the growing sophistication of the machines with which employees are paired means that the skill level of the job itself can be reduced.[9] Consider again, for example, the role of the maintenance worker charged with keeping an assembly line robot in operation. When an arm of that robot ceases to function, the maintenance worker does not halt the assembly line and skillfully diagnose and repair the problems of the arm. Rather, he simply replaces the arm module with a new one and probably discards rather than repairs the malfunctioning one. A similar example is provided by word processing machines which now can correct the spelling of badly trained typists.

A second reason that incremental learning for midcareer workers is generally sufficient to meet their retraining needs is the slow rate at which the occupational composition of U.S. employment changes. In consequence, most of today's midcareer workers will have the option of completing their careers in the occupations in which they are presently working.

In projections of job vacancies between 1980 and 1990, the U.S. Bureau of Labor Statistics advises us that there will be about 700,000 new job openings for secretaries; 500,000 for truck drivers; 500,000 for nurses' aides; and 500,000 for janitors.[10] In the same era, acccording to the Upjohn Institute study cited earlier, the number of job openings created in all phases of the robotics industry--design, manufacturing, operations, and maintenance--will be between 30,000 and 60,000.[11] New, high tech occupations may have spectacularly high percentage growth rates--the population of robotics technicians may be growing at 500 percent per year--but the total number of jobs is very small, compared to the numbers available in traditional fields.

The Impact of International Trade on American Employment

A second source of concern over massive job displacement in American industry is that of the "export" of American manufacturing jobs to foreign countries with lower wage levels. It is clear that very high union wage scales -- sometimes more than $20 per hour in total compensation costs for workers with few special skills -- have contributed to the rapid loss of U.S. market shares in such industries as automobile manufacturing and basic metals production. But the picture in U.S. manufacturing more broadly is far less dramatic.

First, labor costs in much of the U.S. manufacturing have not risen to levels which create extreme economic pressure to move jobs abroad or which create inordinate profit opportunities for foreign competitors. In fact, one of the major barriers to employment adjustment by workers laid off from industries such as automobile manufacturing is that alternative manufacturing jobs open to them in the United States often pay less than half their previous wage.[12] The increasing involvement of the U.S. economy in international markets will certainly exercise a competitive discipline on U.S. wage levels, to keep them reasonably related to worker productivity. But that international competition will not necessarily lead to massive job dislocation because most U.S. wage levels do not seem extraordinarily out of line.

The second reason that the so-called export of jobs need not be viewed with alarm is that this process has been going on for many decades and for thousands of products in harmony with a growing and prosperous American economy. Indeed, it is one of the wellsprings of that prosperity, as the rising incomes of America's trading partners create expanding markets for U.S. products.

Economists have recognized for more than twenty years that individual manufacturing products tend to pass through a "life cycle" over time and that "export" of manufacturing production is a common and efficient later phase of that cycle.[13]. In the early years of a product's lifetime, when the product is being designed, developed, modified, and introduced to its market, the work required on the product is largely nonstandard and skill-intensive. It is therefore efficient to perform this work with a comparatively high-skill, high wage work force such as is found in the United States. Once the product has become standardized and when a mass market has been developed, competition in the product focuses more and more on the costs of production; and these costs can often be reduced by shifting the work to a lower-wage, lower-skill labor force, often in a newly industrializing nation such as Taiwan or Singapore.

The American economy has experienced this cycle over and over, for thousands of products and millions of jobs, over many decades. Today the product involved may be basic steel--or Atari computers; a decade ago, it was consumer electronics; and several decades before that, it was shoes and textile gray goods. The movement overseas of the production of a particular product is not fatal to the American economy or the living standards of the American work force, as evidenced by the fact that the decades which have seen this movement have also seen prosperity, rising living standards, and a rapid expansion of the American work force. If the wellsprings of research, development, and innovation generating new products at the "front end" of their life cycles were to dry up, then the American economy would be in trouble; but trouble is not signaled by the "graduation" of products in the latter stages of their cycles, even products which have become a familiar part of the American economic landscape.[14]

Seven Proposals for Addressing Structural Unemployment and Enhancing National Productivity.

The upshot of the picture which I have presented is that the structural unemployment problem facing the United States today exhibits considerable continuity with that experienced in the past decades, rather than representing a new phenomenon generated by revolutionary shifts in the American economic system or economic environment. In the 1980s, just as in the 1970s, the primary problem we must solve in terms of structural unemployment is: *How do we enhance the labor market opportunities of citizens with serious labor market handicaps (and the full employment of the entire labor force) without triggering unacceptable inflation*?

I will now present seven proposals for federal employment and training initiatives which, I believe, can significantly promote this elusive goal. Each *responds to the facts* about the American economy and economic change which I set forth earlier in this statement. Each is *carefully targeted* at the special problems of citizens with serious labor market handicaps. And each is designed to be cost-effective and efficiency-promoting--*economically justified*

--in the sense of returning more to the nation in terms of economic productivity than it asks society to invest.

Proposal One: Reinvest in Traditional Employment and Training Initiatives for the Disadvantaged.

Throughout this testimony, I have emphasized that the vast majority of the structurally unemployed in the 1980s are disadvantaged workers, not dislocated workers. It therefore follows that the highest priority for federal employment and training initiatives to reduce structural unemployment should be on programs targeted on the population of disadvantaged youth and adults. These persons are the target group of most federal employment and training programs of the past twenty years, and they are the target group for Title II of the new Job Training Partnership Act.

During the past twenty years of programs for the disadvantaged, the United States has developed very effective and cost-effective models for delivering services to these persons. To cite our well known example, the Job Corps provides job skill training, remedial basic education, and comprehensive supportive services to poor, unemployed, out-of-school youth aged sixteen to twenty-one. Careful evaluations of this program show that for every dollar invested in these efforts, society gets back $1.45 in increased employment and output and reduced crime and welfare dependency.[16] Other programs--such as "Supported Work" for older women on public assistance and classroom skill training for adults--also turn in positive benefit-cost ratios. And yet in the past two years, the budgetary resources available to implement these successful programs have been sharply attacked and, in many cases, reduced. Reinvestment in these activities through expansion of their available budgets will directly address the main set of problems of structural unemployment. Equally important, in an era of stringent government budgets, they will more than pay their own way; and in an era which emphasizes productivity and growth, they add to our productive workforce rather than our dependent population.

Proposal Two: Expand Federal Efforts to Upgrade Educational Investment in Youth.

A second high priority target group for efforts to reduce structural unemployment is youth, the next generation of workers.

Here the federal responsibility starts with the problems of disadvantaged youth, who require renewed efforts to prevent school dropouts and to upgrade the quality of education received by inner-city school students. The Youth Incentive Entitlement Pilot Project (YIEPP) of the Carter Administration provides one apparently effective mechanism for the former, and "Chapter I" compensatory education programs do so for the latter.[17] Again, well-developed, cost-effective program models exist; we know how to attack the problem, if given adequate resources.

In the case of youth, however, the need for new national investment in human resources extends beyond the disadvantaged population to encompass the entire next generation of workers. Earlier in this statement, I have emphasized that the pace of occupational evolution in the economy is sufficiently slow that most current adult workers can complete their working lives within their current occupations, and most economic dislocation can be absorbed by attrition. But the next generation of labor market entrants will find relatively few opportunities to follow their parents' footsteps in traditional manufacturing jobs. The children of blue-collar mill workers must be counseled and assisted to continue their education beyond high school, to obtain technician skills in community colleges and post-secondary vocational schools or professional or managerial skills in colleges and universities. Expanded programs of grants and loans for post-secondary education would be one useful step. Retargeting of most resources under the Vocational Education Act from secondary schools to post secondary schools would be another.[18] In this way, the gradually shifting occupational composition of the economy can be accommodated in a relatively smooth intergenerational fashion.

Proposal Three: Encourage Greater Training by Employers for the Employed.

Another point which I have emphasized in this statement is that most of the updating of skills which is required by economic and technological change takes place in a continuous flow of small-scale retraining among the employed rather than in long-duration back-to-the-classroom spells among the unemployed. The American Society for Training and Development estimates that annual expenditures by private employers on employee training totals $30 to $50 billion per year,[19] or some ten times larger than the scale of the entire Job Training Partnership Act.

And yet, large as this number is, there is reason to believe that it is still less than the socially optimal level of investment for the American economy and the American people. Due to the presence of what economists refer to as "private market failures," the American private sector acting alone persistently underinvests in the skills needed by its own work force. These market failures hamper both investment by employers in training their current employers and employees' investment in training themselves.[20]

In the case of employers, investment in worker training, like any other investment decision, is decided upon in terms that return on this investment. When workers are free to move from company to company, it is risky for an employer to spend thousands and thousands of dollars to give a worker a skill in great demand, because that firm's competitor will try to hire that worker away when his training is complete. When all employers together react to this fact, we get a situation where everyone needs a skilled labor pool but nobody will pay for it.

As for employees, we do see a great deal of self-investment by workers. When a high school graduate goes to college, or when you or I take a job despite a low wage but "because it is good experience," that is precisely what is going on. But again the presence of several deficiencies of the private market for training suggest that the amount of this investment is less than optimal. First, bouts of formal midcareer retraining require a cash flow, both to pay for the instruction itself and to support the worker and his or her family while the training is proceeding. This can be a particular problem if the worker wishes to undertake retraining when unemployed, when cash flow is tightest. Second, because formal midcareer training is very expensive, individuals may be reluctant to undertake such a sizeable investment when there is no certainty that it will pay off. And finally, there is a problem of information: Individuals may not be well enough informed about trends in the labor market to pick the right field in which to be trained.

The training gap between what the private sector is currently providing and the ever-increasing training needs of society can be effectively addressed by a new federal initiative. A model for this federal action can be found in the French experience. Since 1971, the French have operated a national system for financing worker training which creates an effective public-private partnership to address exactly the problems outlined.

The key element of the system is what the French refer to as an "obligation to spend," enforced by a payroll tax if that obligation is not met. Each employer of ten or more employees has, by law, an obligation to expend an amount equal to 1.1 of its total wage bill on maintaining and expanding the skill level of the French labor force. If the firm chooses to train its own workers and spends at least the 1.1 percent minimum, then its obligations are discharged. Or the firm may meet the requirement by participating in and financially supporting an industry-wide training fund (usually operated cooperatively between employers' associations and trade unions). Or the firm may donate the funds to a government training center. But the firm might as well spend on one of these forms of training, because if it fails to meet its obligations to spend, then the unspent balance of the 1.1 percent is due to the government as a payroll tax. And the experience in France is that employer investment in training has expanded significantly and steadily in response to the tax, particularly among smaller firms where the tendency to underinvest is most pronounced.[21]

One of the advantages of such an approach is its flexibility and decentralization of decisionmaking. Funds may be used for preventive training (to avoid layoffs by retraining workers for new products and processes), for the training of newly hired workers (including apprentices), for occupational advancement of workers, for the maintenance of old skills, or the acquisition of new ones. No vast amounts of money flow into and out of the public treasury, and no government central plans or decisions constrain what a firm may do. Yet each firm has a profit incentive to use its training resources wisely, and all firms together are required to maintain a high level of sustained investment in the French workforce.

Such a system could be adapted in the United States, either directly or through one of several incremental strategies. One of the incremental strategies would involve reprogramming for training purposes some of the payroll tax fund already collected for unemployment insurance. The state of

California has taken a step in this direction by reducing its payroll tax for unemployment insurance by one-tenth of one percent and creating a new payroll tax in the same amount for worker retraining and other adjustment programs. Another incremental approach would be to impose this obligation to train initially on the defense industry, where government purchases already create both a prosperous growth period and a basis for federal intervention. Chairman St. Germain of the House Banking Committee has recently introduced proposals to this effect in discussions of the proposed Defense Industrial Base Revitalization Act.

The approach proposed here contrasts in important ways with some other proposals which have been set forth recently also seeking to increase the level of training of the American workforce. The approach of the Individual Training Account (ITA) is perhaps the most widely discussed of these.[22] I have a number of difficulties with the ITA approach, but the most basic one is that it is oriented toward after-dislocation, long-duration, change-of-career retraining of the unemployed, rather than toward the preventive, continuous, incremental training of the employed which is emphasized here. Relatedly, it bypasses the employer role in forecasting training needs and places a heavy burden of career planning on blue collar workers who more traditionally adapt their skills to their employers' needs rather than make such decisions themselves. The French approach seeks to avoid both of these difficulties, as well as avoiding the potentially huge increases in the federal budgets which an ITA system might involve. In a typical year, one worker in eight in the French labor force receives some training, and the average amount of training is fifty-five hours. That is precisely the pattern of investment which needs to be promoted in the United States.

Proposal Four: Establish an Entitlement Program for Retraining Functionally Illiterate Unemployed Adults.

Another situation in which occupational retraining is dominated by employer-provided training for the employed is found when firms expand their labor force and hire large numbers of raw, unskilled trainees which they then train for their specific requirements.

This process creates many opportunities for the reemployment of dislocated workers without specific job skills. However, a jobseeker will typically be left behind in this uptake if he is not functionally literate and training ready. This certainly is one reason many disadvantaged workers have difficulty getting hired in there situations. But it is a key problem for many dislocated workers as well. My own empirical research on dislocated workers nationwide suggested that about one-third do not possess a high school diploma, and perhaps another one-third possess a diploma but cannot read, write, compute, or reason at the skill level promised by that credential.[23] Functional illiterates do not make safe, flexible, productive, or easily-trained employees; that, rather, than their lack of specific job skills, is often what screens them out of job opportunities.

If the federal government wishes to utilize its modest-scale training resources wisely, one of the places it will concentrate then is on this problem of functional illiteracy--on providing the prerequisites for skill training rather than on skill training itself. That way, public monies will complement, rather than substitute for, the large volume of private industry skill training available to training-ready individuals.

Some federal money (approximately $91 million in FY 1982) is already being granted to states on a formula basis to provide adult education. But a far larger and bolder initiative is required. I propose that the federal government (through grants to states) would make a learning opportunity available to every unemployed worker who either does not possess a high school diploma or who cannot currently function at the skill level the diploma implies. This offer should, I believe, include two elements:

- The availability of an adult school--tuition free, locationally accessible, and designed to serve midcareer adults who are often not comfortable in a traditional classroom setting;[24] and
- an income maintenance stipend, at the level offered by unemployment compensation, while receiving this training.

In the short run, this program would usefully occupy the time of currently unemployed individuals while providing them with survival income during their unemployment. It would function countercyclically, in the sense that more persons would be eligible during periods of high unemployment and a higher proportion of eligibles would accept the offer during such periods. More importantly, the program would represent a sound investment in building the skill levels of the American workforce, particularly among the segments of the workforce (both disadvantaged and dislocated) which are the special objects of government attention. The investment would pay off well in the long run both in terms of assisting employers by increasing the pool of attractive employees and in terms of reducing government public assistance and unemployment compensation costs.

Proposal Five: Provide Training to Dislocated Workers in Job Search and Career Management.

While publicly-provided skill training is, as I have emphasized throughout this statement, not a promising place for use of public resources in the reemployment of the majority of dislocated workers, assistance and training in the job search process probably is a useful public role. There is, of course, wide variation among dislocated workers, as in any large population, in the level of job search skills and resources which individuals possess. But a substantial proportion of such workers have, prior to becoming dislocated, enjoyed long tenure with one employer. Their job search skills, which may never have been extensive, are therefore often rusty from disuse. They have not within recent memory been faced with the challenges of writing a resume, presenting themselves in job interviews, thinking through the transferability of their past job skills to a different occupation or industry, or searching for jobs not publicly listed. Additionally, the experience of becoming unemployed after an extended period of job stability is emotionally traumatic for many workers, making various forms of encouragement potentially important in overcoming lethargy. Finally, of course, many dislocated workers become unemployed as part of plant closures or mass layoffs or in a locale of general economic decline. In such circumstances, run-of-the-mill types of job search approaches--such as asking friends and relatives or checking for postings at local plant gates--may be inadequate, whereas they might have sufficed in more favorable circumstances.

One currently-fashionable mode for providing transition services which addresses these problems is the "job club."[25] A job club is a temporary alliance of job seekers who meet regularly to provide aid and mutual reinforcement to each individual's job search. The operating mode of a job club typically includes the following elements:

- A membership of no more than 25;
- Regular meetings for substantial amounts of time (e.g., half a day three times per week);
- Explicit training on specific job search and self-presentation skills (e.g., resume writing, interview techniques); extensive use of practical exercises and role-playing in this training;
- Provision of job search materials and facilities (newspaper want ads, telephones) for actual job-seeking during the meetings; and

- An atmosphere of peer pressure and support for a sustained level of search activity.

In short, the job club is a mechanism for encouraging and assisting individuals to work hard and effectively in making their own reemployment transitions; they do not operate on the principle of a formal labor market intermediary institution finding jobs for them.

Such an approach tends to be cost-effective both because it costs relatively little per client served (perhaps $700 or so) and because it provides only the relatively minimal level of transition assistance many dislocated workers require. Sponsorship of job clubs or similar relatively inexpensive job search training mechanisms is one useful way to expend funds to be made available under JTPA Title III. The Downriver Community Conference demonstration program, which for several years has been providing reemployment assistance to workers laid off from the Detroit-area automobile and automobile-related industries, offers one example of such services being skillfully and effectively provided.

Proposal Six: Target JPTA Title III Resources toward Providing Short-Term Assistance Teams for Communities Experiencing large-scale Employment Dislocation

While I have emphasized in this testimony the relatively slow pace and incremental nature of economic change, it must also be recognized that some of this change occurs in a "lumpy" fashion when viewed from the local perspective -- in the form of a mass layoff or large-scale plant closure which may destroy overnight the economic base of a community. Earlier, I spoke of about 100,000 dislocated workers a year who permanently lose their jobs and and will not be readily reemployed even in an economy of nationwide full employment. The majority of these workers will have lost their jobs as part of such large-scle layoffs or plant closures, and the majority of them live in communities in economic crisis such as Flint, Youngstown, Buffalo, or Detroit.[26] What should the federal government do to aid these structurally unemployed workers and their communities?

I would propose that such assistance be provided by a new special federal institution designed to provide large-scale, rapid, flexible, short-term assistance to "crisis locales" in the wake of such economic disasters. This institution should be modeled on an innovative Canadian government agency called the Manpower Consultative Service (MCS). The operations of the MCS can be briefly described as follows:[27]

- o When a plant shutdown or mass layoff situation arises, the MCS becomes involved immediately and temporarily (e.g., for a six month to twelve month period). Thus, it supplements established local labor market institutions at a time of peak demand.
- o MCS's major role is that of coordinating, facilitating, and encouraging the mobilization of local resources, primarily those of local employers and local unions, into a committee. It brings in a modest amount of matching funds for administrative expenses and the services of a case officer, but local government and private resources must also be contributed.
- o All workers involved in the job reduction are contacted to see if employment assistance is desired. (Typically, 70 percent respond affirmatively.) Each individual expressing interest in then interviewed individually to determine the most appropriate form of assistance.
- o Those workers who need or desire career counseling, training in job search skills, retraining, or relocation assistance are referred to the Canadian equivalent of the Job Service for such assistance.
- o The major form of assistance provided to most workers--some 64 percent of all cases--is direct placement assistance. Here, the key role which the MCS and local committee play is to bring into the open jobs in the "hidden labor market" (i.e., those jobs which are typically filled by word of mouth).

As I would envision something like the MCS in operation in the United States, it would copy some aspects of the Canadian approach and modify others. For one thing, U.S. Job Service is not generally equipped to provide career counseling or training in job search skills. Therefore, an MCS-like agency would have to bring in the necessary skills and resources. Second, I would see an MCS-like intervention being triggered not only by a mass layoff or plant closing but also by long-term regional decline or persistent unemployment. Third, I would open these services to all persons in the labor force in a locale, not just those directly affected by a layoff; this is because all job seekers in a labor market have increased difficulty finding jobs following a layoff because of the increased competition from those laid off. Finally, for the reasons discussed earlier in this statement, I would emphasize job placement, job development, and job search training and generally preclude publicly funded skill retraining. Along with these modifications, however, I would preserve other aspects of the MCS approach: its role as a supplementer of existing services on a short-term basis, its tailoring of services of the needs of each individual worker, its nonbureaucratic style of operating, and its emphasis on mobilizing and enhancing local resources.

In his budget proposals for Fiscal Year 1984, President Reagan has asked for $240 million in funds for Title III of the Job Training Partnership Act, the title addressing the needs of dislocated workers. This level of funding is designed to support services to about 90,000 workers. In light of my estimates of the size of the dislocated workers problem, I would conclude that this order of magnitude of funding seems appropriate both for next year and for the years following--provided that the money is targeted and expended in the manner which I have suggested. Currently, Title III monies are allocated to all fifty states on a formula basis, rather than reserved for "communities in crisis" which are primarily located in Northeast and Midwest. Much of the Title III money will be spent by states on permanent, ongoing programs, rather than short-term intervention, and on skill retraining rather than placement. These policies should be changed. But once they are changed, the order of magnitude of resources proposed seems approximately matched to the magnitude of the problem.

Proposal Seven: Modify Federal Policies to Encourage Workers Who Self-Select to Seek Retraining.

While I have emphasized throughout this statement that most midcareer workers will not and should not be thinking in terms of dramatic shifts of careers and extensive occupational retooling, a minority of such workers can and should be making that sort of investment. In the Ford-United Auto Workers program of assistance to displaced auto workers, for example, nearly 100,000 laid-off employees were eligible for tuition assistance for retraining at community colleges or four year colleges and universities; about 2,700 persons out of the 100,000 took up the offer. Typically, these are workers who have the motivation and the ability to be comfortable in a classroom necessary to make good use of these learning opportunities. Federal policy should encourage and facilitate the activities of this training-ready minority while not expecting that other, far more numerous unemployed not so situated should join them.

Two current federal policies in particular should be singled out as creating barriers to self-selected worker retraining; each of these barriers applies to a different subgroup of workers:

- Recipients of Unemployment Compensation. In most states of the nation except California, unemployment compensation is available only to those workers who are "available for work," and a person enrolled in a full-time training is judged not available. An unemployed individual interested in training for a new occupation either must wait until his unemployment compensation eligibility is exhausted, or he must give up the wage replacement income on which he is depending. Understandably, this situation reduces or delays the participation of many workers in training which would materially assist their reemployment. It is ironic--and tragic--for example, that while some 17 percent of employed adults engage in adult education each year, only 11 percent of unemployed adults do so.

- Federal Tax Payers. The federal personal income tax allows an individual to deduct educational expenses if they are related to his current occupation but not if they prepare him for a new occupation. In light of the occupational transitions which some individuals will wish to make, this rule seems neither equitable nor efficient.

Conclusion.

In conclusion, Mr. Chairman, I would summarize my discussion this morning as follows:

- First, long-term structural unemployment has risen in the United States over the 1970s and 1980s. However, its origins and nature have changed relatively little. It is still primarily a problem of disadvantaged workers, not dislocated ones.

- In consequence, there is little basis for anticipating that the federal government will be required to spend billions of dollars on retraining assistance to dislocated workers over the upcoming years. The number of such workers is probably on the order of 100,000 or so a year, not millions; funding of the Job Training Partnership Act's Title III at about $240 million per year seems approximately to cover the problem; and those funds should be spent primarily on relatively cheap and short-term forms of assistance--such as short-term placement- oriented assistance to severly impacted communities, rather than on permanent programs offering extensive and expensive worker skill training. The higher priority for expanded federal investment in employment and training programs such as those under the Job Training Partnership Act should be in Title II--that for disadvantaged workers.

- The most fruitful approach to retraining midcareer workers to keep up with changing times is to expand training through employers. Midcareer training is largely a matter for the employed, rather than the unemployed; and it is largely a matter of a continuous stream of small-scale training activities, rather than of large-scale retooling for an entirely new career.

- Important opportunities exist for the new federal initiatives to attach the problems of long-term structural unemployment and simultaneously to enhance national productivity and international competitiveness. These include new incentives to raise the overall level of training by American industry--perhaps modeled on a French institution; new initiatives to teach job search techniques to dislocated workers, new, flexible institutions for short-term assistance to local labor markets in distress--perhaps modeled on a Canadian idea; reforms of certain "anti-training" provisions of the federal income tax and unemployment insurance program; and establishment of a new effort to provide pre-training basic literary skills to the adult unemployed. At the same time, renewed investment in existing federal training programs for disadvantaged adults and for disadvantaged nondisadvantaged youth can contribute effectively to national economic and social objectives.

Through such actions, long-term structural unemployment can be reduced and national productivity and international competitiveness can be simultaneously enhanced.

FOOTNOTES

[1] Opinions expressed in this statement are my own and do not necessarily reflect those of The Urban Institute, its trustees, or its sponsors.

[2] See Isabel V. Sawhill, The Full Employment Unemployment Rate (Washington, D.C.: The Urban Institute, 1981) and Martin Neil Bailey, The Worsening of Unemployment in the United States (Washington, D.C.: The Brookings Institution, 1983).

[3] The count of workers officially tallied as unemployed does not give a full picture of all those experiencing some form of underemployment. To these must be added "discouraged" workers who are out to work but who have stopped actively searching for employment, and workers employed on an involuntary part-time basis.

[4] See Isabel V. Sawhill, "Creating Jobs: Options for the 98th Congress," Testimony before the Committee on the Budget, U.S. House of Representatives, February 8, 1983, p. 7.

[5] See Marc Bendick, Jr., "The Role of Public Programs and Private Markets in Reemploying Workers Dislocated by Economic Change, "Policy Studies Review, (May 1983), pp. 715-733, and Marc Bendick, Jr., and Judith Radlinski Devine, "Workers Dislocated by Economic Change: Do They Need Federal Employment and Training Assistance?" in Seventh Annual Report: The Federal Interest in Employment and Training (Washington, D.C.: National Commission for Employment Policy, 1981), pp. 175-226.

[6] For more details on these workers and their labor market problems, see Marc Bendick, Jr., "Employment, Training, and Economic Development," in John L. Palmer and Isabel V. Sawhill (eds.) The Reagan Experiment (Washington, D.C.: the Urban Institute, 1982), pp. 247-268; Ralph E. Smith, "Groups in Need of Employment and Training Assistance," in Seventh Annual Report: The Federal Interest in Employment and Training (Washington, D.C.: National Commission for Employment Policy, 1981), pp. 43-60; and Daniel H. Saks, Distressed Workers in the Eighties (Washington, D.C.: National Planning Association, forthcoming 1983).

[7] See James Cook, "You Mean We've Been Speaking Prose All These Years?" Forbes (April 11, 1983), pp. 142-148.

[8] See H. Allan Hunt and Timothy L. Hunt, Human Resource Implications of Robotics (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1983).

[9] See Henry M. Levin and Russel W. Rumberger, The Educational Implications of High Technology (Stanford, California: Stanford University Institute for Research or Educational Finance and Governance, 1983).

[10] See Robert J. Samuelson "The Old Labor Force and the New Job Market," National Journal (February 26, 1983), pp. 426-431, and A.F. Ehrbar, "Grasping the New Unemployment," Fortune (May 16, 1983), pp. 106-112.

[11] See Hunt and Hunt, *op. cit.*

[12] For example, according to the U.S. Bureau of Labor Statistics (reporting in *Employment and Earnings*, May 1983), the average hourly wage in U.S. manufacturing was only $8.78 per hour. Primary metal production (including basic steel production) and transportation equipment manufacturing (including motor vehicle assembly) were each more than 30 percent above this average, but electronic equipment manufacturing was five percent below the average.

[13] See Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics* (May 1966), pp. 190-207.

[14] However, the speed with which a product moves through this life cycle is very often open to influence by corporate management. Investment in modernizing the technology of U.S. plants will tend to keep production in the United States longer. So will marketing strategies which emphasize continued innovation in response to specialized customer requirements rather than mass production of a standardized product.

[15] To say that they are cyclical, of course, is not to say that they should be ignored. Rather, they should be addressed--but by various programs for bridging workers' income gaps until their old jobs return rather than by assistance designed to transition these workers to new industries and occupations. Such bridging assistance might particularly focus on health insurance coverage and on continuity of mortgage payments; and it might include earning opportunities in countercyclical "soft public works" or public service employment programs. For some discussion of these options, see Marc Bendick, Jr., "Reemploying Dislocated Workers -- Five Strategies for Pennsylvania," Testimony before the House of Representatives' Committee on Appropriation, Legislature of the Commonwealth of Pennsylvania, March 9, 1983.

[16] See Marc Bendick, Jr., "Employment, Training, and Economic Development," in John L. Palmer and Isabel V. Sawhill (eds.), *The Reagan Experiment* (Washington, D.C.: The Urban Institute, 1982), p. 260.

[17] See Manuel de la Puente and Marc Bendick, Jr., *Employment and Training Programs for Migrant and Refugee Youth* (Washington, D.C.: The Urban Institute, 1983), and Robert Taggart, *A Fisherman's Guide, An Assessment of Training and Remediation Strategies* (Kalamazoo, MI: The W.E. Upjohn Institute for Employment Research, 1981).

[18] See National Commission for Employment Policy, *The Federal Role in Vocational Education: Sponsored Research* (Washington, D.C.: The Commission, 1981).

[19] See Anthony P. Carnevale and Harold Goldstein, *Employee Training: Its Changing Role and an Analysis of New Data* (Washington, D.C.: American Society for Training and Development, 1983.

[20] For a more formal discussion of the theory of human capital investment underlying this market failure, see Marc Bendick, Jr., and Mary Lou Egan, *Recycling America's Workers: Public and Private Approaches to Midcareer Retraining* (Washington, D.C.: The Urban Institute, 1982).

[21] For more on the French system, see Marc Bendick, Jr., Dislocated Workers and Midcareer Retraining in Other Industrial Nations (Washington, D.C.: The Urban Institute, 1983), and Bendick and Egan, op. cit.

[22] On ITA's, See Pat Choate, Retooling the American Work Force (Washington, D.C.: Northeast-Northwest Institute, 1982).

[23] See Bendick and Devine, op. cit.

[24] Many midcareer blue collar workers have relatively little recent experience in a classroom, and they may never have been comfortable with a school setting even when young. Therefore, effective programs of midcareer retraining need to adopt special training techniques and to develop "nonschool-like" atmospheres to serve adult learners effectively. For some ideas on adapting to the learning needs of adult workers, see Marc Bendick, Jr., "The Swedish 'Active Labor Market' Approach to Reemploying Workers Dislocated by Economic Change," Journal of Health and Human Resources Administration, forthcoming 1983.

[25] For a discussion of why and how placement assistance and job search training are effective forms of assistance for displaced workers, see Marc Bendick, Jr., Government's Role in the Job Transitions of America's Dislocated Workers, Testimony before the Committee on Science and Technology, U.S. House of Representatives, June 9, 1983., and Marc Bendick, Jr., "The Role of Public Programs and Private Markets...," op. cit.

[26] For statistical evidence that residence in such locales is associated with long-term unemployment, see Marc Bendick, Jr., "The Role of Public Programs and Private Markets in Reemploying Displaced Workes," Policy Studies Review (may 1983), pp. 715-733; and Bendick and Devine, op. cit.

[27] See Marc Bendick, Jr., Dislocated Workers and Midcareer Retraining in Other Industrial Nations, op. cit., pp. 10-13, Michael C. Barth and Fritzi Reisner, Worker Adjustment to Plant Shutdowns and Mass Layoffs (Washington, D.C.: ICF Inc., 1981); and William Batt, "Canada's Good Example with Displaced Workers," Harvard Business Review (July-August 1983).

Representative LUNGREN. Thank you, Mr. Bendick.

Now we would like to hear from Mr. Marvin Cetron, president of Forecasting International.

STATEMENT OF MARVIN J. CETRON, PRESIDENT, FORECASTING INTERNATIONAL, LTD., ARLINGTON, VA.

Mr. CETRON. I am going to differ with the last statement. Obviously, we have 1.2 million people who will never get called back again for jobs. The bulk of them are in automobiles, steel, railroads, textiles, and rubber; 800,000 because of automation, robotics, computer-aided design, computer-aided manufacturing, flexible manufacturing systems.

It is going to get worse, not better, because the cost of robots in general in 1980 was $150,000, at the end of 1982 it is $102,000, they are going down to $35,000 by 1985, and less than $5,000 by 1990 and replaces six workers if you use it around the clock. That is less than the medical cost of the fringe benefit package of an automobile worker. So we have got a major problem right there.

Do not give me this business about UAW a nickel-an-hour business. That sounds fine on paper. What they did, General Motors, with consultation with the unions at the end of last year and last December when it came to Christmas, took $300 for every unemployed worker, said now you can go buy yourself and your children a ham or a turkey and spend $300 for toys for these kids.

The toys are now broken, the food has been eaten. That was one-quarter to one-half of the training funds, and they took it from the training area. So we are not dumping money back into retrained employees. And so far as I am concerned, that just is not correct.

Second, this business about the BLS giving information out, the Bureau of Labor Statistics on jobs is absolutely erroneous. They are based on 1978 numbers. The jobs they talk about in the future will not exist. They are not looking into robotics: They do not have a robotic technician, laser technician, computer-aid design technician, computer-aid manufacturing technician, nothing in the area of geriatric social worker, nothing in the area of housing rehabilitation technician, hazardous waste technician, CAT scan reader, PET scan reader.

We are talking in the area almost of 3 million jobs, none of which they even are considering and they cannot even report. What they are putting out is GIGO, not the computer lingo of garbage in, garbage out, but garage in, gospel out, because it has the seal of the United States on it—and it is still junk.

The point very simply is we are even getting ourselves worse of a problem because as we go—if the educational requirements put out by the excellence committee are true and we are going to go to 28 percent more hours, 28 percent more in schooling, 7-hour days, not 6, 210 days, not 180, this means we get 12 percent more women in the work force. That is not even being considered anyplace else.

Not only that, the business with the people in private schools, 20 percent of the private school people who have children in private schools today, if they babysit their children for 8 hours a day, as we mentioned earlier, 20 percent move back to the public sector. So you have major problems here no one is even looking at.

In addition, the biggest bomb we had over the last few years has been the CETA program, the Comprehensive Education and Training Act. We spent billions of dollars, 60 percent of which was used for administrators, 40 percent of which was used for training. Only 3 percent of the people got jobs.

Until 1979 we trained people to be manual elevator operators. The last manual elevator was built by Otis in 1961. We trained people until 1978 to be Linotype operators. The last Linotype built was in 1963 by Mergenthaler in Brooklyn. We have 11,000 people standing behind optical character readers that were Linotype operators before, yet we trained these individuals.

Reason: The groups we had, the PIC's as we call them, the private-industry councils, were a bunch of political-industry hacks. They spent the money locally but did not want to train people for jobs that would exist because it unemployed other people. So the unions in the local jurisdictions wasted the money.

The Job Training Partnership Act now says 70 percent of the money just be used for training. Only 15 percent for administration and 15 percent specifically to get the illiterate—and we have 17 million functional illiterates in this country—up to the stage where they can be trained.

Now, the trouble is the same people in these PIC's are running the operation—a bunch of political hacks—who are going to use training money to train people to fix up schools, to take care of menial jobs. We have to get people inside and retrain them for the new jobs.

As far as I am concerned, the BLS data is wrong. It is inappropriate even in the area—forgetting the office in the future, the workplace of the future, and the factories—let us take a look at the offices. We now have machines who can talk to you, can read 6,000 words into the machine; you can then read for 2½ to 3 hours. After you have done that, you can talk to the machine. It will type up 97 percent of what you said and correct the spelling errors.

This means one-third of our secretaries will lose jobs by 1990—not 500,000 more. That is inappropriate. The BLS is still saying we need more people as bank clerks. We have more little blue machines which you put your money in and get your money out and checkbook societies coming downstream because by 1987, 57 percent of the homes in the United States will have interactive cable in them. Every cable since 1973 has two cables. This is ridiculous.

The things we are doing at the present time, I think, are a disservice to this country. We are not getting involved with putting enough people into BLS to get late data. We are not getting the jobs even being considered.

As far as I am concerned, we are going to have to go back to retraining and retraining is going to be a lifelong occupation as well as reeducation. Sure, some of it will only take 3 to 4 weeks; some may take 3 to 4 months. And if everybody goes back and gets retrained every 10 years and if we have 45 percent of our spouses both working in 1945, 65 percent both working in 1990, and 75 percent both working by the year 2000, you can go back and get recredit. Your wife or your spouse can go back in 10 years, you will go back later on in 10, which means every 5 years many will go back. That does not increase the structural unemployment. Full employment will not be 4.5 percent unemployment—closer to 8. Sweden has that right now.

The point I am trying to bring out is we cannot just do piecemeal pieces to retrain people. There are lots of things that can be done at the present time. The Job Training Partnership Act specifically says you can only get, say, computers for training aids if they are going to be used for unemployed workers. You cannot train kids in high school. You are not permitted to train people who have not lost their job yet.

There is a way of getting around the law. Very simply, you train the people from 4 until midnight on these machines and you put them in the schools. Therefore, you get the Job Training Partnership Act putting in something like the PLATO computer that can train people to be a robot technician, laser technician, computer-aid design technician, hazardous waste disposal, geriatric social worker. All of those things are on the machines now, because General Motors worked with Control Data to develop the robotic training program already. If the computer chip is putting people out of work, we ought to use the computer chip to put them back to work.

In addition to this, if you used it from 4 until midnight and you are justified in the On-the-Job Training Partnership Act, there is no reason we cannot use those machines from 8 in the morning until 4 to train kids coming out for the new jobs and then train them from midnight till 8 in the morning for people who lose their jobs from corporations and let them pick up the service contract, which is about $60 a month. The problem is computers do not wear out because you use them all the time; computers wear out if you turn them on and off. It is the surge of current.

So we can use them around the clock. It is like the world's oldest profession: you got the product, you can sell the product. You can still sell the product.

The point very simply is we do have the computers. They can be purchased. We can use the extra money to pay more and higher teachers' salaries that we really have to do to compete in the future.

Very simply, I think we have a short-range approach over here. Nobody is giving it the time and effort it requires. We are giving it lipservice. This goes straight across the board. The trouble with our Bureau of Labor Statistics is they think like lawyers: they are looking backward and based what happens in precedent: they are not looking toward the future.

In addition to this, our newspapers scream and yell about what is going on, but nothing about the new things that ought to be taken care of. And we are not spending enough money in the area of retraining people for the new jobs that will take place.

As far as I am concerned, we are not doing the job that we should be doing, and I think we have to get back to one basic, and the basic is education. The educational level in this country—if we were 17 out of 20 industrialized countries—and we are, we have to get back to educating our students. Our scarce resource is not energy. We spend millions, billions literally, on energy. Our scarce resource is not fresh potable drinking water.

Our scarce resources are our kids, and we are not educating them. We have minimum standards for teachers, it is "curriculum of last resort." If you cannot make it in business or law or engineering or medicine, go become a teacher.

And not only that, the Excellence Committee report also had some data we presented to them, too; 52 percent of all of our Ph.D.'s in this country are foreigners; 34 percent of all of our master's students are foreigners; 76 percent of all of our technical Ph.D.'s are foreigners. It is no wonder we are losing our lead in areas overseas. We not only give them the education and training, we make sure they are good, we make sure they get their degrees and we test them first. Then we send them back overseas.

I think we have to get back into setting higher standards for teachers. We have to get back into making sure that teachers are computer-literate, and we have to make sure we have a minimum of 3.0 to 3.2 average at the end of your sophomore year or you cannot go teach our kids. They are too precious for that.

We have got to start paying our teachers a minimum of 20 percent more in salaries; math, physics, chemistry, and vocational education 40 percent more, before you start with merit pay. And merit pay is going to have to come in. Even teachers in the colleges get paid merit pay. Everybody, including the Government and industry, gets merit pay. The only people who do not get merit pay are in the socialistic countries, and their work looks like it does not get merit pay.

When everyone is in charge, no one is in charge. As far as I am concerned, we have to start with the educational system as well as retraining people for the new jobs. I think it is a disaster area. Thank you.

[The following article was attached to Mr. Cetron's statement:]

Getting Ready for the Jobs of the Future

by Marvin J. Cetron

The same technologies that are eliminating many jobs are creating lots of new ones. But workers need to be retrained if they are to be able to fill the new jobs.

High-school chemist examines results of her classroom experiment. To retain its technological edge over other countries, America must place more emphasis on science and math education and encourage its youth—especially girls—to be proud of their skills, says author Marvin Cetron.

One thing is certain about tomorrow's job markets: dramatic shifts will occur in employment patterns. These changes are going to affect how we work and how we are educated and trained for jobs.

Major shifts in the job market won't necessarily mean major changes in the numbers of people employed. What the changes do mean is that many of the old jobs will disappear—and not just because of robots and computers. Manufacturing will provide only 11% of the jobs in the year 2000, down from 28% in 1980. Jobs related to agriculture will drop from 4% to 3%. The turn of the century will find the remaining 86% of the work force in the service sector, up from 68% in 1980. Of the service-sector jobs, half will relate to information collection, management, and dissemination.

Unemployment will be an ongoing problem. If the current recession were to end tomorrow, probably 1.2 million of the more than 11 million unemployed in the United States today would never be able to return to their old jobs in the automobile, steel, textile, rubber, or railroad industries. This loss of jobs is called structural unemployment.

Foreign competition in low-wage countries will eliminate about one-sixth of the 1.2 million jobs; another one-sixth will disappear because of the nationalization of many major industries in other countries that results in "dumping" of products on the U.S. market and undercutting American prices. "Computamation" (robotics, numerically-controlled equipment, CAD/CAM [computer-aided design and computer-aided manufacturing], and flexible manufacturing) will assist in the demise of the remaining two-thirds of the jobs eliminated.

As this technological transition takes place, productivity will increase. For example, the use of a robot or a CAD/CAM system in the automotive industry can replace up to six workers if operated around the clock. Quality control increases fourfold, and scrap is reduced from 15% to less than 1%.

Japan already uses some of these new jobs and technology. It had no choice. Currently, it imports 96% of its energy. By the year 2000, that will rise to 98%. Eighty-seven percent of all of Japan's resources come from the outside. These statistics contributed to the decision to go robotic. But the essence of Japan's problem is that, between 1985 and 1990, 20% of the entire work force will retire at 80% of their base pay for the rest of their lives. Japan was forced to go robotic to remain competitive. The United States, too, will be filling many of today's blue-collar jobs with robots. The displaced workers will have to learn the new skills necessary to build and maintain the robots.

White-collar workers in the office of the future will also see some dramatic changes in their jobs. Currently, about 6,000 word lexicons—machines that type directly from speech—are in use. After a person dictates into the machine, a word lexicon types up to 97% of what was said. In addition, it can translate the material into nine languages, including Hebrew, which it types backwards, and Japanese kanji symbols, which it types sideways and the user reads down the columns. Machines such as this will eliminate 50% of all clerical and stenographic jobs. But instead of going to an unemployment line, many of these workers may find jobs controlling the robots in factories using word-processing equipment.

[illegible]

Teachers at Oxford High School in Massachusetts review books and computer software for use in a summer workshop for computer educators. Teachers will require continual retraining through in-service or summer programs to keep up with the demands of preparing students for a changing world.

> **"Currently, a 4.5% unemployment rate is considered full employment. But by 1990, 8.5% unemployment will be considered full employment."**

As the types of jobs change, so will the definition of full employment. Currently, a 4.5% unemployment rate is considered full employment. But by 1990, 8.5% unemployment will be considered full employment. This figure is not as disturbing as it first appears, for at any given time 3.5% of the work force will be in training and education programs preparing for new jobs.

Workers will be able to take time out for retraining, in part, because of the shift in job patterns. In 1980, 45% of American households had two people working. In 1990, this proportion will increase to 65%, and in 2000, 75% of family units will have two incomes. This shift will allow easier transitions from the work force to training programs and back to the work force. Forecasts estimate that every four or five years one of the spouses or partners will leave the ranks of the employed to receive the additional knowledge and skills demanded by changes in technology and the workplace.

With these changes already taking place, workers must learn to do new jobs now and in the future. Vocational educators and trainers must gear up to provide this vital education and training to the work force of the next two decades—jobs related to robots, lasers, computers, energy and battery technology, geriatric social work, hazardous-waste management, and biomedical electronics. (See table for some of the jobs that are disappearing and others that are growing in the shifting job market.)

New Occupations for the 1980s

The following occupations are among those that we can expect to become increasingly important:

Energy Technician (650,000 jobs) jobs will increase dramatically as new energy sources become marketable.

Housing Rehabilitation Technician (500,000 jobs). Intensifying housing demand will be met by mass production of prefabricated modular housing, using radically new construction techniques and materials.

Hazardous Waste Management Technician (300,000 jobs) Many years and billions of dollars may be required to clean up air, land, and water New industries will add to the demand with new wastes

Industrial Laser Process Technician (600,000 jobs) Laser manufacturing equipment and processes, including robotic factories, will replace much of today's machine and foundry tools and equipment

Industrial Robot Production Technician (800,000 jobs) Extensive use of robots to perform computer-directed "physical" and "mental" functions will displace hundreds of thousands of workers But new workers will be needed to insure fail-proof operations of row after row of production robots

Materials Utilization Technicians (400,000 jobs) must be trained to work with new materials being engineered and created to replace metals, synthetics, and other production substances unsuited for advanced manufacturing technologies

Genetic Engineering Technician (250,000 jobs) Genetically engineered materials will be used extensively in three general fields industrial products, pharmaceuticals, and agricultural products New and modified substances will be produced under laboratory-like conditions in industrial mass-production quantities

Holographic Inspection Specialist (200,000 jobs) Completely automated factories that use optical fibers for sensing light, temperature, pressure, and dimensions will transmit this information to optical computers to compare this data with stored holographic, three-dimensional images

Bionic-Medical Technician (200,000 jobs) Mechanics will be needed to manufacture bionic appendages while other specialists work on highly sophisticated extensions of sensory and mental functions (seeing, hearing, feeling, speaking)

Automotive Fuel Cell (Battery) Technicians (250,000 jobs) will perform tests and services for new fuel cells and batteries used in vehicles and stationary operation, including residences

On-Line Emergency Medical Technician (400,000 jobs) Needs for paramedics will increase directly with the growth of the population and its aging In forthcoming megalopolises and high-density residences, emergency medical treatment will be administered on the spot, aided by televised diagnoses and instruction from remote emergency medical centers

Geriatric Social Workers (700,000 jobs) will be essential for the mental and social care of the nation's aging population

Energy Auditors (180,000 jobs) will use the latest infrared devices and computer-based energy monitoring to work with architects, product engineers, and marketing staffs in the production, sales, and operation of energy conservation and control systems for housing, industrial plants, and machinery

Nuclear Medicine Technologists (75,000 jobs) will work with medicines and serums using radioisotopes As the isotopes are absorbed in tissues and muscles, diagnosticians can observe functions of normal and/or damaged tissues and organs and can determine treatment needs and responses to medication, thus reducing the need for surgery

Dialysis Technologists (30,000 jobs) will operate new portable dialysis machines and the expected greater number of hospital dialysis machines

Computer Axial Tomography (CAT) Technologist/Technician (45,000 jobs) Though more than a decade has passed since development of this technique for using X rays with computer technology to give sectional views of internal body structures, the supply of qualified technicians has not kept pace with the growth of the technology Jobs for technicians to install, maintain,

The Shifting Job Market

Some jobs that will be disappearing by 1990:

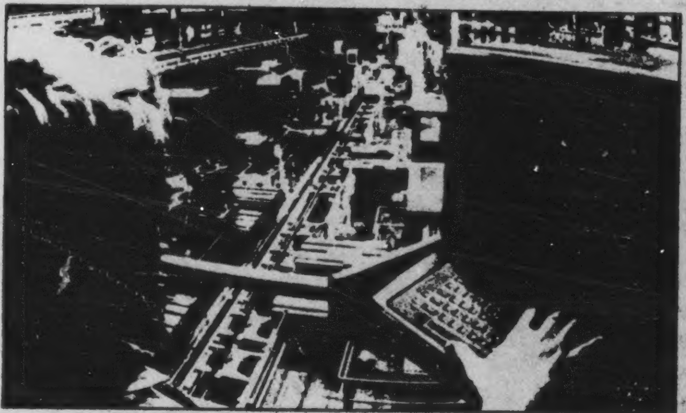
Occupation	% Decline in Employment
Linotype operator	-40.0
Elevator operator	30.0
Shoemaking machine operators	19.2
Farm laborers	19.0
Railroad car repairers	17.9
Farm managers	17.1
Graduate assistants	16.7
Housekeepers, private household	14.9
Childcare workers, private household	14.8
Maids and servants, private household	14.7
Farm supervisors	14.3
Farm owners and tenants	13.7
Timber cutting and logging workers	13.6
Secondary school teachers	13.1

Some jobs that will be growing until 1990:

Occupation	% Growth in Employment
Data processing machine mechanics	+157.1
Paralegal personnel	143.0
Computer systems analysts	112.4
Midwives	110.0
Computer operators	91.7
Office machine service technicians	86.7
Tax preparers	77.9
Computer programmers	77.2
Aero-astronautic engineers	74.8
Employment interviewers	72.0
Fast food restaurant workers	69.4
Childcare attendants	66.5
Veterinarians	66.1
Chefs	55.0

THE FUTURIST, June 1983

Dying Factory Gets New Lease on Life



A view from the control booth of GE's "factory with a future," where just two workers can do in 16 hours what it once took 70 workers 16 days to do.

An electronic "heart transplant" has been given to an aging factory in an industry and in a region that many had given up for dead.

The General Electric Company is investing $316 million over the next three years to revitalize its locomotive plant in Erie, Pennsylvania. When all of the robots, computerized machine tools, and other automation systems are in place, the Erie "factory with a future" will have increased its production capacity by one-third.

One of the first automation projects to come on line is a $16-million flexible machining system for traction motor frames. With this system, two workers operating nine machine tools can do in 16 hours what used to take 70 workers 16 days to do using 29 aging machine tools.

But increased productivity through automation means more rather than fewer jobs, says Carl J. Schlemmer, vice president and general manager of GE's Transportation Systems and Business Operations, who predicts that the higher level of production will require a 10% increase in employment in the Erie plant.

Although current employment there is down almost 30% since 1980, much of the decline is attributed to the nationwide recession; GE already has announced plans to recall about 900 laid-off workers by the end of the year.

"There may be some initial dislocations, but long-term automation is going to have a positive effect on the employment situation here," Schlemmer says. "We're confident that the growth we've projected, coupled with the competitive edge derived from productivity improvements, will serve to provide *growth* in jobs—not *loss* in jobs."

GE is expecting a strong upsurge in the locomotive market once the current recession eases. "The U.S. railroad industry, our major customer, is going through a strong renaissance," says Schlemmer. "The anticipated growth in rail traffic, plus the need to replace an aging fleet, should create demand significantly higher than the average market of the 1970s."

Work in the automated factory will be different. Sophisticated, highly automated factories need skilled labor to run them. To train its workers in the newly-required skills, GE has built a $6 million Learning and Communications Center, which opened last October.

The learning center has four fully equipped classrooms; a high-technology laboratory for training in machine tool control and system applications; laboratories for computer study, diesel engine maintenance, and rotating electrical machinery; and a high-bay lab that can accommodate an entire locomotive for hands-on maintenance training.

But there is more at stake than just this factory: GE is not only automating its own plants but is also helping other companies automate—with GE equipment.

For further information, contact: News Bureau, General Electric Co., Box 5000, Norwalk, Connecticut 06856.

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and operate CAT scanning systems and assist in the analysis of these scans will offer attractive employment for thousands of qualified people.

Positron Emission Tomography (PET) Technician/Technologist (165,000 jobs). PET scanners are used for diagnoses of disorders of the brain. The need for qualified workers in this field will increase with advances in and the growing use of this technology.

Computer-Assisted Design (CAD) Technician (300,000 jobs). The computer can do more, better, and faster than traditional design methods. Whether designing modes of transportation, dwellings, or other products, CAD will affect education, employment, and ways of work more than any other single technology.

Computer-Assisted Graphics (CAG) Technician (150,000 jobs). Rapid growth of computer-assisted graphics will affect the education, training, and employment of all graphics technicians as no other event in graphics history. Demands for artists and technicians will increase tenfold, in large part due to an increase in demand for new forms and dimensions of graphics to portray objects, schemes, and scenarios before they are actually produced.

Computer-Assisted Manufacturing (CAM) Specialist (300,000 jobs). CAM systems will permit all the design, development, specification, and logistics data to be pulled out of CAD and CAG data bases and reprogrammed into computer-assisted manufacturing programs, which will then operate most of the production facility. This permits the attainment of flexible manufacturing cells in which every step of producing a product is determined and programmed sequentially for accomplishment without (or with minimal) human intervention.

Computerized Vocational Training (CVT) Technicians (300,000 jobs) will be employed to develop educational and training materials to use in programs at all levels in public and private educational institutions. Utilizing the demonstration capabilities and versatility of CAD software in conjunction with computer graphics, educators and trainers will be able to depict any object and any action with a vividness and dynamism that will produce higher learning benefits than any mode ever employed. Students will be able to assemble or disassemble the most complex mechanisms, construct the most artistic forms, and design dwellings and structures without ever leaving their computer terminals. While "hands-on training" will remain an essential part of vocational training, terminology and work sequencing will be learned at the CRT. Textbooks, lengthy lectures, and dissertations will become passe in the coming decades of learning by doing at the computer terminal. Up to 75% of all instruction will be acquired at the computer console, allowing teachers to spend much more time helping students learn actual on-the-job work skills with actual products and processes.

Most of these new jobs will require some kind of postsecondary vocational or technical training—training that is for the most part not now available.

> **"Competent teachers in vocational education, math, and science can earn 50-60% more in the private sector."**

Attracting Competent Teachers

To ensure that the vocational education system provides the education and training needed by the labor force of the future, competent teachers must be attracted to the field.

Currently, competent teachers are not attracted to the profession due to low salaries and low status. Competent teachers in vocational education, math, and science can earn 50-60% more in the private sector. The decline in competent teaching of these subjects must and can be stopped.

Over the years, teacher education programs have encountered declining enrollments due, in part, to low salaries, to oversupplies during baby-boom years, and to the high status of working in the private sector. To counteract the declining enrollments, teacher training programs lowered their standards for entry, which resulted in attracting a lower caliber of student. The programs became a curriculum of last resort for students failing in other areas.

To reverse this trend, long- and short-term strategies must be instituted in the United States. Teaching can be made more attractive through the support of administrators and by raising the salaries of teachers, especially in those areas of high demand, i.e., vocational education, math, and science. Raising the salaries by 20% across the board and by an additional 20% in those areas of high demand will attract teachers back from the private sector and encourage a higher caliber of student to enter undergraduate teacher preparation programs. The law of supply and demand will work if other constraints, such as inflexible pay scales and tenure laws, are lifted; but standards must not be lowered.

For long-term solutions to assuring a supply of competent teachers, a series of three hurdles must be instituted by teacher preparation programs and departments of education.

- For acceptance into a teacher education program, students must score at least 850 combined total on their SATs and pass a proficiency test in reading, writing, and computational skills.
- To continue in a teacher education program, students must maintain above-average grades (3.0 GPA or the equivalent) for the first two years of undergraduate work.
- Before receiving permanent certification, a teacher must pass a competency examination and receive positive evaluations from supervisors, administrators, and peers.

These are not new suggestions; each has been implemented successfully in several states already. The implementation of these standards will not happen without controversy. Witness the furor caused by Penn State's Joe Paterno and the NCAA when they decided to require a total of 700 on the SATs before accepting college athletes. But for the sake of the teaching profession, these standards must be initiated and maintained.

Requiring each prospective teacher to overcome these hurdles will

High-school students in Oxford, Massachusetts, work with a learning aid that familiarizes them with electrical and electronics wiring. This vocational education will help them prepare for work in the state's burgeoning electronics industry. To prepare America's youth for the more technical jobs of the next two decades, schools must be equipped to provide vital vocational education and training.

tighten the profession's standards and limit those entering to the best. The resulting shortage of teachers will raise salaries and attract more from other places. The downward spiral in teacher competence will be reversed and the status of the teacher will rise, along with the salaries and the level of competence. If the trend is not reversed, America may be forced to use teachers from foreign countries, similar to the medical profession's solution to maintaining medical services in rural areas.

To relieve the short-term lack of math, science, and vocational teachers, rather than tolerate less than the best, the best retired teachers or business people in these fields could take a 1-2 month refresher course and return to the classroom for a year or two. To further alleviate the shortage, corporations could be encouraged to make available some of their skilled technical people to provide some teaching.

Higher salaries and other benefits to attract good teachers will raise flags with the cost-conscious and bankrupt some states and school districts. That is why cooperation between the public and private sectors is imperative in the academic arena. High-technology companies have the equipment and personnel to assist schools and teachers during this transition time.

Along with limiting entrants into the profession to the best, schools must continually retrain their good teachers. For example, computer literacy for every high-school student and every teacher must be required. In-service programs provided by school districts or departments of education should be available and every teacher should be able to pass a computer literacy test within four years.

Some colleges and universities have planted the seed of computer literacy with good results already. Hamline University in St. Paul, Minnesota, has a computer literacy requirement comparable to other required courses such as English and beginning mathematics. No student may successfully leave Hamline without computer proficiency. Now several other private schools in the Minneapolis-St. Paul area are joining the literacy network.

Union Plans Strategy for the Future

A union whose members face some of the most dramatic changes during the transition from an industrial to an information society is now making a concerted effort to look ahead.

The Communications Workers of America, which represents 673,000 telecommunications workers, created a Committee on the Future in 1981 and assigned it the task of assessing the tremendous changesoccurring in the industry and in the world of work.

At a special conference in March 1983, the committee made its recommendations for how the union can best achieve its fundamental goal of employment security for its members.

In an age of tremendous technological change, the key to employment security is training and retraining, which requires the cooperation of employers and government with the union, "for we cannot do the job alone," the committee said. "While we cannot lay aside our powerful confrontational skills, there is no way we can achieve employment security through training and retraining if we and our employers get bogged down in the old ways. Careful new initiatives in bargaining, political action, joint consultation, and public relations will be necessary," said the committee's report.

The committee also told the special conference that CWA must become strategy-driven rather than reactive in its method of dealing with external events. It identified some of the major outside forces affecting the union:

- Technological changes that will affect job opportunities.
- Structural changes in the telecommunications/data processing industry, such as the divestiture of AT&T, the union's primary employer.
- Changes in the composition, life-styles, needs, and interests of the work force.
- Power shifts in business and politics, especially toward ultraconservative and anti-union groups.
- Economic turbulence and uncertainty.

The committee, led by union president Glenn E. Watts, told the union that these forces are threatening only if CWA fails to deal with them strategically. "The key to bringing off a successful CWA strategy that links together bargaining, organizing, political action, education, and other vital union activities lies in the formation of a number of 'strategy centers' within CWA," the committee said in its report.

Each strategy center would concentrate on a major objective. For example, one would address the "new" AT&T; another would deal with independent telephone system companies and the new Bell Operating Companies (BOCs); another would be concerned with the problems of the union's public-sector workers. These centers would be formed or disbanded according to the union's changing needs.

To succeed, the committee stressed, the union must overcome its natural resistance to change. The committee recognized that nearly all CWA members will feel tremendous jolts and disturbances as the union restructures itself to ride with the forces of the future. "But we can take this, because the prize—employment security—is worth it," the committee concluded. "And because the alternative is to watch thousands of our members become victims of America's move into the Information Age and the global economy."

If teachers do not fill the gap in their skills, they should be phased out for failing to keep current with the requirements of their profession. To win the salaries and esteem that the profession deserves, schools cannot keep deadwood on their faculties.

Changing Attitudes Toward Education, Training, and Technology

Across the board, the gap is closing between the highest and lowest students. Special programs help the lower students come up to their capacities; however, few programs help the truly brilliant students perform at theirs. Teachers who could teach brilliant students are going into other occupations and are being replaced by less adequate teachers, so students with great potential are not getting the necessary support.

The National Commission on Excellence in Education recently issued a report saying, "If an unfriendly foreign power had attempted to impose on America the mediocre educational performance that exists today, we might well have viewed it as an act of war. As it stands, we have allowed this to happen to ourselves." The commission recommended increased support for math and science and stiffer math, science, and computer literacy requirements in high school. The commission also recommends increasing the length of the school day from six hours to seven or eight hours and the length of the school year from 180 to 210 days. These revisions are vital if the United States is to maintain the lead in technology that it now enjoys, especially since other countries are rushing to close the gap. For example, Russia requires seven years to America's two-and-one-half years of these subjects in high school, while Japanese students go to school 240 days a year.

America must encourage its youth, especially girls, to be proud of their skills in science, math, and vocational subjects. Traditional funding sources, as well as parent/teacher groups, booster clubs, etc., should be encouraged to make money and give funds to "mathletes" and "chemletes" as well as athletes. Students should be awarded letters in math, physics, chemistry, and vocationally related extracurricular activities, similar to athletic letters. Finally, schools should be pouring dollars into computers rather than stadiums.

Education must equip people to change. As important as math, science, and vocational skills are, they are not enough. As society changes, so will the skills and knowledge needed to be productive and satisfied. The higher levels of cognitive skills must be learned as early as possible. People must be taught skills in decision making, problem-solving, creativity, communication, critical thinking, evaluation, analysis, synthesis, and the structuring of problems to understand what the results ought to be. We must make people think and also make them communicate. Already, well-educated chief executives, who should and do know better, depend on industry lingo to communicate their ideas. The day of the simple sentence—using real words, not jargon—must dawn again, or the gap between buyer and seller, maker and user will never be filled.

Updating Teaching Methods

Keeping vocational-education programs up to date always has been a problem. The rapid pace of technological change accentuates and widens the gap between programs and the cutting edge of knowledge. Budget cutbacks make the problem even greater. The same problem has hit industry. Consequently, businesses are turning to computerized training to lessen the cost and, at the same time, maintain or improve the quality of their programs. At the forefront of this nationwide trend is the PLATO computer-assisted instruction system developed by Control Data Corporation.

The applications for PLATO are as limitless as the range of business and industry itself. Such diverse industries as manufacturing, petroleum, banking, real estate, finance, aviation, and emergency medicine find PLATO indispensable. Individual companies and associations training with PLATO include American Airlines, General Motors, General Mills, Shell, DuPont, Federal Express, National Association of Securities Dealers, Bank Administration Institute, Con Edison, and Merck, Sharp, and Dohme.

Computer-assisted instruction (CAI) is easily adaptable for short-term training. Many of the unemployed need two or three months of training for a job that will exist. CAI is practical and effective; the information is up to date.

If this or similar programs were implemented in vocational-technical schools, every teacher and every student would have immediate access to the most recent information available. Students could learn theory and related content on the computer. Teachers could then work individually with students for the hands-on training that is so vital in vocational education. This method requires a different kind of thinking by teachers. Insecure teachers will feel threatened by the computer if they have not yet become computer literate. But the computer is a tool to make teaching more efficient and more effective—not a replacement for the teacher.

This fear is dissipating somewhat as microcomputers march into the classroom, mainly due to the efforts of businesses that sell them. Control Data, for example, has spent much time helping educators incorporate the technology into the classroom in such a way that everyone—students, teachers, taxpayers—receives the maximum benefits from it.

"Training dollars must go only for jobs that exist or will exist in the near future."

And as teachers realize the power they can exert through the computer—introducing and updating courses, record-keeping, administrative functions—the teacher-replacement issue will fade.

Maintaining a skilled work force will take an enormous expenditure of resources. Operating training programs in vocational, technical, and industrial facilities 24 hours a day will eliminate much of the need for duplicating expensive equipment.

Even more importantly, training dollars must go only for jobs that exist or will exist in the near future. In the past, the training programs sponsored by CETA (Comprehensive Education and Training Act) did not give Americans what was promised. Sixty percent of the money was used for administration; the remaining 40% went into training. Only 3% of the trainees actually obtained jobs. The people were trained for jobs that did not exist and will not exist. For example, up until 1979 people were still being trained to be linotype and elevator operators, even though a need for these skills had not been identified for the preceding 10 years. In fact, linotype equipment had not been manufactured for 15 years preceding 1979.

The new Job Partnership Training Act has tried to correct this by requiring that 70% of the funds go to actual training programs and limiting administration to 15%. The remaining 15% is designated for basic literacy education and child-care services for trainees.

The jobs of the future are changing in nature. America needs to make short- and long-term changes to avoid disastrous consequences. The first step is to begin to encourage the unemployed to upgrade their skills and take lower-paying jobs as temporary solutions. The next step is to get the education system back on track to produce educated minds that accept the challenges of the future and want to learn more. Strong emphasis on education is necessary; however, it is not sufficient. Training for the occupations of tomorrow is also needed. Finally, Americans must admit past mistakes and do what it takes to make the country strong and stable in the future.

About the Author

Marvin J. Cetron, a pioneer and expert in the areas of technological forecasting and technological assessment, is the founder and president of Forecasting International, Ltd., 1001 North Highland Street, Arlington, Virginia 22210. He is the author of 10 books dealing with technology and the future, the most recent of which is *Encounters with the Future: A Forecast of Life in the 21st Century* (McGraw-Hill, New York, 1982, 320 pages, $12.95, available from the World Future Society Book Service; prepayment required, please include $1.50 for postage and handling). He will be a keynote speaker at the World Future Society's special conference "Working Now and in the Future" in August. He would like to acknowledge the help of Clyde Helms, president of Occupational Forecasting, in developing the projections of new occupations for the 1990s.

Representative **Lungren**. Thank you, Mr. Cetron.

I tried to avoid saying Members of Congress do not get merit pay. I am afraid the conclusion might be drawn with respect to the quality of the work they put out.

Mr. Sheldon Friedman is our next witness. He is the director of the research department of the United Auto Workers.

STATEMENT OF SHELDON FRIEDMAN, DIRECTOR, RESEARCH DEPARTMENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

Mr. **Friedman**. Thank you. It is a pleasure to have the opportunity to be here. I certainly agree with Mr. Cetron regarding the critique of Mr. Bendick's undercount of the displaced bodies. I do not exactly know how many displaced workers there are, but it is worth noting the Congressional Budget Office comes up with a figure of 3 million, a pretty far cry from the 100,000 that Marc Bendick cited.

With regard to our negotiated training programs, I cover that in some detail in my prepared statement, and would prefer to spend my limited time now addressing the public policy issues.

But, I do want to take issue with the remark Mr. Creton made concerning our General Motors-UAW retraining program. It is true that moneys were disbursed in the form of a Christmas bonus in the latter part of 1982.

And let me just digress briefly to say that in and of itself underscores the magnitude of the problem. Because, at the point in time that the bonus was negotiated, there were 160,000 workers on indefinite layoff from General Motors Corp. The eligibility rules among that group to receive the Christmas bonus were remarkably restrictive. You had, No. 1, not to have another job somewhere else; No. 2, to have pretty much fallen off the table in terms of all your negotiated benefits, as well as State and Federal unemployment compensation.

And, even with those restrictive rules, we had almost 90,000 GM workers out of the 160,000 who, as of Christmas 1982, had neither a job nor any kind of benefits, public or negotiated. And, if that is not a displaced worker, I do not know who is. So, right there, we have just from one corporation, albeit a very large one, practically all the displaced workers that Marc Bendick tells us existed in the entire country.

Now, I think Mr. Cetron should have brought us up to date on General Motors and the UAW. We have, in fact, gone beyond that to implement programs in terms of retraining. While they are not as far along as the Ford Motor Co., we do have programs in place. They are operational, and we are retraining a lot of workers at General Motors. And that is more fully detailed in the statement.

If you look at the body count for the auto industry as a whole, it really is a pretty gruesome picture. We have lost something like 300,000 jobs just at the core, original equipment companies in the last 4 years. And if you throw in the supplier workers, the workers that make the steel and rubber and the aluminum that go into the automobiles, we are talking about an awesome total of some 1 million jobs out of our Nation's biggest manufacturing industry.

And, despite the gains so far this year in sales and profits—modest gains in sales and big gains in profits—the employment picture has brightened barely at all. We have seen less than one-quarter of the jobs that have been lost since 1978 restored as a result of the very modest upturn in the industry to date.

If there is a recovery underway in the auto industry, truly it is a workerless recovery this time around.

And, I think that the point that Marc Bendick misses is that we are in a period of very profound structural change in industries like auto. It is not going to be a cyclical recovery just like all the other cyclical recoveries.

If you look at the factors that affect employment levels in industries like auto—and let me focus on it specifically—we are talking about a mature market, we are talking about an industry in which technology is going to be introduced at a rapid rate, raising productivity to unheard of levels historically, we are talking about an industry in which unless the Domestic Content Law is enacted, we could see imports continuing to skyrocket, and foreign sourcing by the domestic companies growing rapidly as well.

The interplay of these factors paint a very grim picture on the jobs front, not only for the short term, but also for the long term. And, if you look at other UAW industries, the picture is equally bleak. If you look at our farm equipment industry in this country, we have lost something like one-half of the jobs in the last 3 to 4 years. And by no means will all those jobs come back if, and when, we have a cyclical recovery in that industry.

Now, the evidence is fragmentary, but points strongly in the direction that workers who have been displaced from basic industries like auto, have suffered very greatly, and have not fared well in the last several years. And even now there is very little indication that their lot is improving greatly.

A study was done by researchers from Cornell University of those workers affected by the Mahwah, N.J., Ford plant closing. That plant closed in 1980. Interviews in the summer of 1982 by the Cornell researchers resulted in the finding that only half of those workers had found any job at all in that period of more than 2 years since the closing. And, if you look at workers over the age of 45, the percentage who had found jobs dropped to less than 40 percent. There were major declines in family income; there were very large increases in health, psychological and family problems not troubling the workers before the plant shut down.

A more recent survey conducted in March and April of this year reinforces the findings of the Mahwah study.

A survey was jointly undertaken by the Social Welfare Research Institute at Boston College with our region 9A among unemployed UAW members in New England. That survey indicates that as much as 27 months after workers lost their jobs, 46 percent of those surveyed are still unemployed; fully one-quarter of the workers surveyed had exhausted all savings, their entire lifesavings wiped out during the period of unemployment; that 47 percent had lost half or more of their lifesavings; that a quarter had no health insurance during their period of unemployment; and of the remainder, a quarter were paying premiums out of their own pocket at a cost ranging from $100 to $200 a month, a tremendous drain on the limited family resources of these unemployed workers.

Now, what has been the response of Government to this massive crisis? It has been mean-spirited at best. We have had budget cuts affecting social programs and the welfare of the unemployed unlike anything we have ever experienced in this country in the last 50 years. If you take a look at the unemployment compensation program, the first line of defense for the unemployed workers in this country, there were only 44 percent of the unemployed who received any benefits under that program in 1982. And that is the lowest such ratio in any of the postwar recessions, and a far, far cry from the 71 percent of the unemployed who received benefits in the severe 1974–75 recession.

If you look at employment and training, despite all the hoopla, in fact, we have had massive budget cuts. Between fiscal 1981 and fiscal 1983, something like $4 billion was lopped out of the Federal budget for these activities, and that is before you even take inflation into account. The administration's proposals would chop another 8 percent out of these functions for fiscal 1984.

The Job Training Act, the displaced worker program set up under title III of that legislation is a welcome step, but an extremely modest one. And the act itself, and in particular that program is, unfortunately, seriously flawed. There is, in particular, no public service employment of any kind, so we have no coherent program to provide jobs through the Job Training Partnership Act. It is sort of a misnomer, because there are no jobs in the act.

The funding is far too limited, the percentage of the population in need to be serviced by these funds is tiny in comparison with the tremendous need that does exist. There is no advance notice provision of any kind in the legislation, despite findings by researcher after researcher that timely intervention is absolutely critical if retraining and other labor market assistance programs are to be effective.

We remain, essentially, the only industrialized country in the world without statutory requirements on employers with respect to advance notice before plant closings and mass layoffs.

The act is further hampered by restrictions that limit the effectiveness with which even the limited money provided can be utilized. In particular, stipends and allowances for workers undertaking retraining are seriously restricted under the act. This has the effect that many workers simply cannot afford to undertake retraining, even if the training is potentially available to them. How in the world is an unemployed worker with no stipend, who has exhausted all benefits, supposed to support himself or herself and his or her family during a period of retraining without stipends and allowances?

The absence of stipends and allowances has the further deleterious effect of forcing a lot of the training that is taken, to be very short-term training, when in fact what is needed is a much longer course of retraining if a worker is to really effectively adjust.

Support services can also be very critical to the success of training and retraining efforts. And these are seriously limited under the legislation.

Crisis counseling, intervention—often an unemployed worker has very serious problems, traumatic problems that must be dealt with so that worker can get back on his or her feet before they can even think about retraining. These sorts of services are simply not adequately provided for under the legislation, nor are they integrated with the delivery of the other kinds of services.

Child care is often a prerequisite for a worker to undertake retraining, or to undertake a meaningful job search. This is not provided.

Transportation, both to the place of retraining or in terms of job search assistance, is not provided. As for expenses for incidentals incurred in the job search, there is little or no provision for any of these things in the legislation.

Another serious problem with the law as it presently stands, is that there is no adequate provision for union input. There is a provision regarding consultation in regard to programs affecting union members, but there should be a provision in fact requiring prior approval, not just consultation.

The State job training coordinating councils should be given a much more active role than they are by the current legislation. These councils should review and comment before decisions are made on which dislocated worker programs will be funded.

With respect to the Federal Government, the role should be far more active than it is under the present legislation. There should, in particular, be a requirement for performance standards, so that we can make meaningful evaluations of which programs are successful, which are failures and build on the best and discard the worst. The recent regulations that were issued in this connection fall far short of what is needed.

Federal leadership is also essential to assure that the dislocated worker funds will be promptly and effectively used. Right now we are seeing States falling behind schedule with respect to the implementation timetable under that program, which is simply inexcusable in view of the severe need that exists.

But, the bottom line in my view is that training cannot succeed unless it is linked to the creation of jobs. Our fundamental economic problem in this country is that we do not put full employment any longer at the centerpiece of our economic policy. "Full employment" are not dirty words; it ought to be the first priority of our economic policymakers, and not the last.

And that means we need a fiscal policy and a monetary policy with that goal and that objective in mind. And it means we need an industrial policy in this country with economic planning, which includes as part of it an active international trade policy, including such measures as the domestic content law.

And it means we need for the long run, reduced worktime legislation for as new technology is introduced into the workplace, we must reduce worktime to share the available work more broadly.

And it means we need a labor market policy which gives real hope for displaced workers and all the unemployed, and not just empty promises. And it cannot be done without adequate resources and commitment—there is no free lunch in this area. We have to put the resources into it. We have to make the commitment. There are ways the money can be found.

The defense budget is grossly overbloated, it could be cut. There are tax loopholes for the benefit of the wealthy and the corporations which could be plugged. There are many ways in which the resources could be found.

Thank you.

[The prepared statement of Mr. Friedman follows:]

PREPARED STATEMENT OF SHELDON FRIEDMAN

Thank you for this opportunity to present the UAW's views on the nature and magnitude of the problems facing structurally unemployed workers, and the inadequacy of current public sector programs to deal with these problems.

There has been a massive dislocation of American workers in recent years resulting from the interplay of footloose capital, intensified international competition, energy shocks and failed and misguided government economic policies — most notably tight money and its disastrous consequences: sky-high interest rates and an over-valued dollar. The Congressional Budget Office estimates that more than three million persons are victims of economic dislocation. Many of those workers are members of the UAW.

Five years ago, the auto industry and its suppliers provided nearly 3.4 million jobs. In 1982, the total was down to only 2.3 million. This year, despite the fact that all of the Big Three auto companies have moved strongly back to profitability, we estimate that industry employment will be just 2.5 million, 900,000 below the 1978 level.

Sizable job losses also have occurred in other UAW-represented industries, including the agricultural implement manufacturing industry where employment is down more than 50% from its level of four years ago.

For years social scientists have been studying the human impact of economic decline and dislocation. Studies have linked unemployment to physical and mental health problems, to infant mortality, suicide and divorce.

For example, the New York State School of Industrial and Labor Relations studied the impact of the Ford Mahwah, New Jersey plant closing on 5,000 UAW members. The researchers found that health, emotional and family problems increased dramatically after the plant shut down. Two-thirds of the workers surveyed reported problems with tension, depression and insomnia. Over half reported that their families were also experiencing emotional or physical health problems. Nearly all of the workers who reported problems felt that those problems had resulted from, or had been made worse by, the closing of their plant and the loss of their jobs.

But studies and statistics alone tell only part of the story about the people who bear the burden of unemployment. We have seen the pain caused to countless thousands of our members as their lives have been shattered and their dreams lost.

Because of the UAW's concern about the availability of re-employment opportunities for our members, and the uncertain economic future that many currently employed members are facing, we have given training and retraining a high priority on our collective bargaining agenda. At the same time that we have been establishing training programs under our negotiated agreements, we have continued our legislative efforts for national policies to generate economic and employment growth, because without such policies, training programs can have little value.

Negotiated Joint Labor-Management Programs

Early in 1982 the UAW established important new training programs with the Ford Motor Company and the General Motors Corporation. The program at Ford is called the UAW-Ford Employment Development and Training Program and the General Motors program, the UAW-General Motors Joint Skill Development and Training Committee.

The focus of both programs is to develop jointly — that is, the Union and management together — programs to provide training, retraining, and developmental opportunities for active and laid-off UAW-represented workers. For laid-off members this includes job-finding assistance. For active members this means assistance to enhance job security and upgrade skills.

Financing for both programs is provided under the collective bargaining agreements at 5 cents per hour worked. This has amounted to approximately $10 million a year going into the UAW-Ford training fund and about $40 million a year into the UAW-GM fund.

Under the UAW-Ford program the first step taken was to establish a jointly directed National Development and Training Center on the campus of Henry Ford Community College in Dearborn, Michigan. The Center plans, designs, and coordinates programs — relying primarily on existing community educational and counseling resources.

The first programs began in the summer of 1982. With Ford's UAW-represented workforce at the time down by 90,000, initial program efforts were aimed at laid-off workers.

The first program implemented was the National Vocational Retraining Assistance Plan — a program of pre-paid tuition assistance which pays tuition costs up to $1,000 a year for qualifying laid-off workers so that they can pursue self-chosen education and training to improve their chances for reemployment within or outside the company.

Tuition assistance in itself is not new at Ford. There has long been a negotiated program that offers tuition assistance to active workers. What is new, however, is that (1) eligible laid-off workers are now receiving such assistance; (2) the plan providies pre-paid tuition in recognition of the fact that laid-off workers are less likely to have "up front" money for tuition; and (3) there is no requirement that education be specifically related to the laid-off worker's former job.

In August of last year, the National Center mailed brochures to 18,000 workers describing the tuition assistance program. The response was enthusiastic. So far, over 2,800 course enrollments have been approved and an average of 100 applications are coming in a week.

Recently the National Center profiled the first 600 workers who have participated in the plan. Over 50% chose two-year vocational education degree programs, almost all at community colleges. Of those who chose two-year vocational education programs some 57% chose electronics, robotics, or other technology-related course work. Of the 13% who selected four-year college and university programs, a third chose business curricula and one-quarter chose engineering or the sciences. These workers tended to select full-time course loads, with the plan paying approximately 95% of the average cost of tuition and compulsory fees.

The second UAW-Ford program implemented was the Targeted Vocational Retraining Project, or TVR. Targeted Vocational Retraining is intensive, full-time retraining — generally technical in nature — which will lead to skill certifications in specific occupations.

Projects are established only where there are definite job prospects, and quality educational institutions and vocational training programs are available. Once training is completed, workers receive job placement assistance.

The first two TVR projects were for welding, and tool and die certifications, involving 72 laid-off workers from several Southeastern Michigan plants. Forty-two recently graduated, and close to half already have found new jobs.

Other TVR projects have been initiated at five locations across the country — Sheffield, Alabama; San Jose, California; Nashville, Tennessee; and two metropolitan areas in Michigan — with 300 laid-off workers receiving training ranging from microwave technician to video production technician.

The Career Counseling and Guidance Program was the third early program formulated. It assists both active and laid-off workers to form and reach personal and career goals. So far, six joint local employee development committees have initiated career counseling and guidance for 900 laid-off members in Michigan, Ohio, Minnesota, Tennessee, and Alabama.

Subsequent to these three early programs, there have been other activities, including career day conferences, special career plan surveys, job search skills workshops, and special plant closing assistance.

Under the joint UAW-GM program, our initial efforts also concentrated on laid-off workers. In late 1981 and early 1982, the closing of the Fremont and Southgate, California car assembly plants idled some 9,000 workers. Recognizing the high priority for reemployment and retraining for these workers, the Joint Skill Development and Training Committee, in conjunction with the state of California, created a program of skills assessment, job counseling, retraining, and job placement.

Under the program which began last fall and will run through the end of this year, each worker is registered at a reemployment center where a review is made to identify experience, skills, interests, and goals. A determination is made of whether a worker has marketable skills, or is in need of retraining.

At the time of the skills assessment, each worker's personal needs are also assessed, and a variety of personal and family services are offered to help deal with individual problems.

Workers with readily marketable skills and those who develop such skills through retraining are also provided with job search assistance: how to find local job openings, how to secure interviews, and what to expect in the interviewing process. In addition, job referral and placement assistance is provided.

Workers requesting retraining receive a retraining assessment, and individualized retraining plans are developed. Individualized retraining plans involve either developing special training courses or locating openings in existing training programs. Contacts also may be made with employers to establish on-the-job training.

About 1,000 workers are expected to soon complete classroom training and will be joining those already waiting for placement. To meet this need, a marketing plan is being developed to seek out prospective employers and arrange for placements.

The first set of statistics from the project shows that 85% of 8,900 eligible workers have registered in the program. Close to one-fifth or 1,300 have found jobs. Approximately 1,800 have received job search training, and 2,100 have been enrolled in training programs.

In addition to the UAW-GM California project, agreement has just been reached to establish a jointly administered development and training center in Flint, Michigan. This center will serve the needs of over 10,000 UAW-represented laid-off workers in the Flint area, as well as the currently employed whose skills may soon become obsolete.

Under the proposed program, workers requesting training will be given an employment assessment and matched against available jobs within the corporation and in the local job market.

Laid-off workers not prepared for direct job placement will be able to choose among self-selected formal education or retraining under a plan of up-front tuition assistance of up to $1,000 a year. Eligible active workers will be placed in in-plant training programs.

UAW efforts to negotiate training programs have not been limited to the auto companies. We have also established programs with companies in the agricultural implement industry where our members have also been hard hit by layoffs in recent years.

At International Harvester, for example, in addition to negotiating tuition refund for laid-off workers, the UAW negotiated an outplacement assistance program. Under a special three-year $1 million budget, a variety of job search services are provided, including training in writing resumes, information on job opportunities, as well as information on available support services within the community.

These services have been made available to 12,000 workers idled by plant closings in Kentucky, Indiana, and Illinois. Of the 4,800 who have gone through the program so far, about one-fifth have found jobs.

Early experience with the negotiated programs has been positive. Laid-off members are receiving training and other services which have or will help them regain employment. Programs underway for active members are enhancing their current employability or qualifications for job upgrading.

These programs which have been negotiated by the UAW have an important byproduct in that they provide a forum in which to exchange ideas with management on how to develop better and more advanced ways to satisfy our members' training needs. The true potential of these programs will only be reached when dislocation situations are identified ahead of time so that training can be initiated in time to update old skills and develop new ones before the jobs are lost. Workers could then remain on the job or make lateral or upward job moves without having to suffer the trauma of unemployment. The importance of advance notice and adequate lead time cannot be overstated, especially in view of the rapidly changing technology in the nation's plants and offices. In the auto industry alone a ten-fold increase in the robot population is expected between 1982 and 1990, potentially displacing 40,000 workers.

Union/Company Initiatives Cannot Solve the Problem: Federal Action Required

The UAW intends to build on these accomplishments at the bargaining table but the problem of worker displacement cannot be solved solely through union/company initiatives. While we have been successful in providing training and job search assistance to thousands, hundreds of thousands need such help. Reaching all of the workers who need training requires a strong commitment and decisive action by the federal government.

The federal government also has the responsibility to provide a safety net of social benefits to American workers who lose their jobs, and has the responsibility to implement policies which result in economic growth and full employment.

It is most unfortunate that at a time when the need for federal commitment has been so great, the Reagan Administration has severely cut back federal resources for training activities. Spending for all employment and training activities in fiscal 1983 is expected to total $5.2 billion, $300 million less than in 1982 and $4 billion less than in 1981 — before taking inflation into account. The President's 1984 budget proposal would cut employment and training outlays even further, by proposing that only $4.7 billion be spent, 8% less than in fiscal 1983.

Those in need of public employment and training assistance will have to rely on a reduced federal program — the Job Training Partnership Act (JTPA). JTPA, which replaces the Comprehensive Employment and Training Act (CETA), is seriously inadequate in a number of respects. It does not, among other things, provide for public service employment.

Dislocated Worker Program Under JTPA

One positive aspect of JTPA is that it establishes a dislocated worker program. The UAW is gratified that Congress provided some funding, though at a minimal level, for the dislocated worker program in the present fiscal year.

In states where sizable numbers of our laid-off members live we are actively pursuing opportunities under JTPA. In Ohio, for example, through the efforts of our National Aerospace Department and Ohio regional offices, the UAW has received a grant from the state's JTPA dislocated worker fund to work jointly with Rockwell

International Corporation and other aerospace employers to design a program which will match displaced auto workers with emerging aerospace jobs.

A grant has been secured jointly by the State of Alabama, UAW local leadership in Sheffield, and the UAW-Ford National Training Center to provide instruction in robotics maintenance, computer-aided drafting and computer programing for 650 UAW members who lost their jobs when Ford Motor closed its Sheffield, Alabama die casting plant in July.

The UAW Job Development and Training Department has continued programs carried over from the CETA program during the JTPA transition phase — including those targeted toward displaced workers from auto and other industries. These are well established and extremely successful programs and we hope to be able to continue them under JTPA. The UAW also has submitted proposals to establish job clubs to re-teach job search skills to dislocated workers in Michigan, New York, and Alabama.

Inadequacies of the JTPA Program

The JTPA dislocated worker program, however, is not large enough to meet existing need. With the funds available in this fiscal year, fewer than 40,000 workers will be served and the Administration's funding proposal for next year would enable only 96,000 workers to receive assistance. Moreover, it is uncertain that the available funds will be able to provide even these few workers with the full complement of services that are necessary to enhance their ability to regain employment. At the very least, this program should be funded at $2 billion in the upcoming fiscal year.

One of the most important elements missing from the dislocated worker program is the requirement that a company give advance notice when it closes a plant or lays off a portion of its workforce, such as would be required under H.R. 2847, the National Employment Priorities Act, which we support. When sufficient advance notice is given there is time to develop and implement a plan to help workers obtain the necessary training and line up new jobs before the plant closes or the layoff takes effect.

The present structure of the dislocated worker program also has serious limitations which hamper the effectiveness with which even the program's limited funds can be utilized. Restrictions on stipends and allowances prevent many workers from participating in training programs because they lack the financial resources to support themselves and their families while in training. Limited availability of stipends and allowances also tilt training programs in the direction of short-term training, which often fails to develop the skills necessary to qualify for good long-term jobs.

Under the current program, supportive services are forced to compete for a small pool of potential funding. These support services can be of crucial importance. Often the availability of crisis intervention and counseling services, such as family and credit counseling, are a pre-condition for success of training or other forms of assistance. Many dislocated workers, particularly those who have been unemployed for some length of time, cannot pay for transportation to the training site, and do not have money for lunches, telephone calls for job search activities, and transportation for job interviews. In some cases, single parents are unable to participate in training programs without child care.

Limitations on stipends, allowances, and supportive services should be removed, and the program should be expanded into the areas of health care protection and assistance with mortgage payment difficulties.

The program also would be more effective if more opportunities for meaningful input from labor unions were available. The law presently recognizes the important role that labor plays in developing programs to assist dislocated workers by providing that programs to assist union members will be established after full consultation with their labor unions. Because of their vast experience with assisting workers and helping to resolve worker problems, labor unions are in a unique position to render meaningful and effective counsel regarding training and training-related programs.

Our early experience with state Job Training Coordinating Councils (JTCC) indicates a real need to ensure an active role for these councils. Members of these councils represent a broad constituency within the community, including labor, and can provide important input and valuable resources for meeting the employment and training needs of dislocated workers within the states. It should be required that state JTCCs review and comment on all dislocated worker programs before decisions are made on which projects will be funded.

The federal government also has a far more important role to play than that which it has been assigned by the current legislation. Congress may have intended that the states have flexibility in the design and administration of programs, but this should not preclude the federal government from providing guidance to ensure that programs operate effectively and equitably and achieve common goals. Indeed, Congress clearly expected the federal government to set minimum guidelines to ensure that the objectives of JTPA are met and a cohesive program develops.

One area where the federal government is expected to take responsibility is in setting performance measures. Without a national system of reporting and performance standards, it cannot be determined which training approaches work best and which fail to justify continued funding. Nor will it be possible to use the JTPA experience to assess the broader policy implications of employment and training programs — so judgments can be made on future policy directions. In the development of a national system of performance standards, it is important to recognize that standards be designed to be sensitive to, and realistic about, the economic conditions within individual states. In recognition of the importance of national reporting, the Department of Labor has just issued regulations on reporting requirements and performance standards. Unfortunately, these regulations fall far short of meeting their objective. No followup information on workers who have participated in the dislocated worker program is required, limiting the ability to properly assess JTPA-funded programs.

Effective federal leadership also has been lacking in the implementation timetable under the dislocated worker program. States have been behind the initial schedules set for them, and have been slow to obligate their dislocated worker funds. Federal leadership is needed to ensure that states act promptly to put in place dislocated worker programs.

Not only should Congress act to correct these inadequacies, it should develop ways of handling dislocation which demonstrate a real government commitment to help workers. We would suggest looking at the experience of other industrialized countries in designing employment and training programs, particularly with regard to displaced workers.

In Canada, for example, advance notice of plant closings is required by provincial law. This requirement provides companies and unions time in which they can call upon Canada's Manpower Consultative Service for help. In an advisory capacity the Service assists the parties to devise and operate a plan to place workers in other jobs before the gates close. When necessary, the Service helps workers move to where jobs are, retrains them, offers them job search assistance, and supplies major benefits such as health insurance during the transition period.

Western European countries and Japan also handle plant closings and permanent layoffs in ways that are far in advance of the U.S. in their concern for the affected workers and communities.

In Germany, advance warning is required of plant closings. Before a plant can close, the company and its works council must draw up and agree on a "social plan" that spells out a course of action for each affected worker. For some workers this may involve direct placement in other jobs. For others it may involve retraining or relocation. Although readjustment assistance usually is a company responsibility, government subsidies are available.

In Sweden, advance notice of a shutdown is also required by law. A Regional Labor Market Board takes primary responsibility for helping workers regain employment. Immediately after the company announces the expected closing, the board establishes job-finding centers at the closing facility which tie into a nationwide computerized job vacancy identification system. Companies are required to list all vacancies with the National Labor Market Board, and federal funds are available for relocation assistance and retraining.

The focus of the dislocated worker program — and all training programs — is training. However, no amount of training and job-search assistance will help if jobs do not exist. The fundamental requirement for the success of training programs is employment growth.

Conclusion

To assure steady economic growth and full employment, we need a coherent full employment macro policy, coupled with an industrial policy which includes a system of national planning to manage our resources in a manner that best serves the country's needs. Training programs should be an important component of that policy, as should the regulation of plant closings and provision of a guaranteed social safety net for dislocated workers.

The UAW will continue its efforts through collective bargaining to provide its members with training, retraining, and job upgrading opportunities. At the same time, we will continue and redouble our political efforts on behalf of sound national policies that will create the jobs for graduates of training programs to find.

Representative Lungren. Thank you, Mr. Friedman.

Next we would like to hear from Harley Shaiken, professor, Massachusetts Institute of Technology.

STATEMENT OF HARLEY SHAIKEN, PROFESSOR, MASSACHUSETTS INSTITUTE OF TECHNOLOGY, CAMBRIDGE, MASS.

Mr. Shaiken. Thank you, Congressman Lungren. I am pleased to be here for these issues because I think the whole issue of training and retraining has received inadequate attention in the context of industrial development and issues of employment today.

What I would like to do, I would like to explore briefly three areas and their implication on issues of training and retraining: First, why I think that current technological transformation that has taken place is in fact fundmentally different than what we have seen in the past.

Second, the consequences that we are currently experiencing of inadequate training for the development and use of automation. I would argue that in many ways our lack of adequate retraining is warping the process of technological development which carries a very high cost for today and tomorrow.

And finally, the disturbing reality that training programs, no matter how well conceived and executed, will not make up for a shortfall of jobs.

First, I would like to briefly look at the scope of the changes that are taking place today, of the decrease in cost and increase in sophistication of microelectronic technology in spreading automation to a wide range of areas where it has never been before.

The extraordinary flexibility of this technology has resulted in the factory in robots, flexible manufacturing systems, computerized machine tools, automated parts handling, and a wide variety of other technology.

The market for factory automation promises by most analysts to grow very rapidly in the coming decade. One of the more conservative projections is by Predicasts, the Cleveland consulting group, that looks for an annual growth rate of 15 percent. This would result in a market for factory automation of about $37 billion in the mid-1990's. General Electric, a little more optimistic, looks toward a market of $30 billion for factory automation in the early 1990's.

Now, automation in the factory, of course, is not something that is new. But the extraordinary flexibility of computer technology extends the reach of automation to the service sector and to the office as well. If anything, the growth of automation in the office will proportionately be far more rapid than what we have experienced in the factory.

Services, which are often promised as the area of economic growth for those people who are displaced from traditional manufacturing occupations, will itself have a much higher rate of introduction of new technologies in the manufacturing sector.

Already, services comprise 30 percent of total business investment. This is a very rapid climb from the 16 percent that the services comprised as early as a short time ago as 1975. Of course, the investment of $1,000 in the service sector in automation or in the office has a much larger impact than in the factory because these sectors are still much less capital-intensive to start with.

In any case, all of this amounts to the beginning of very rapid and pervasive changes that we can expect to see. One of the key differences of microelectronic-based automation is that we are no longer speaking about a simple or single machine, whether it is a word processor in the office or a robot in the factory. So to focus on any single technology such as robots in terms of the employment implications of this technology is extremely misleading. We are looking at a new way of organizing production, whether it is the production of a product or the organization of services.

As a result, the scope of this technology is much more far-reaching. So rather than really speaking about a new lathe in the factory, computer-aided design affects the very process of production from the time at which a designer conceives of a new product and when it is actually produced in the factory. And all kinds of intermediate occupations are either eliminated or dramatically transformed as a result of automation.

In fact, it is this elimination of many highly skilled intermediate occupations that presents considerable problems in terms of training and retraining. We are not simply talking about displacing assembly workers with robots. We are also realistically looking at the displacement of manufacturing engineers with computer-aided design and the virtual elimination of drafting, one of the more skilled occupations for which people displaced in the factory have been trained for in the past.

Also, the rate of obsolescence, the rate of change of computerization, is much more rapid than conventional forms of automation. In the past, perhaps 10 years was a reasonable time to look at the obsolescence of a new piece of factory equipment. Today, 3 to 5 years is far more realistic in terms of the new capabilities of ongoing forms of automation.

Of course, this has very real implications for training because it raises the issue of training and retraining as a continuous process rather than something that can only be dealt with at a point of crisis or one shot, so to speak.

I think we have had very serious failings in the past and currently in the area of training and retraining. These failings, aside from the enormous human cost that goes along with them, carry a very serious, though hidden, economic burden. The skills are not available in critical areas for the effective operation and maintenance of computerized production systems.

This burden is exacerbated by what I would call a technological illusion that automatically new technologies eliminate skills. In fact, in a wide range of occupations this does happen. But at key bottlenecks, skills remain pivotal for the effective operation of new technologies. And the failure to provide adequate training in the past or the failure to provide retraining today, in effect, insures that these systems will not operate at nearly the potential that they could.

There, in fact, is an enormous productivity loss by not having the adequate skills available to operate and maintain new forms of automation. But in many cases, rather than invest in retraining, obviously considerable investment, a shortcut today is being taken in a wide range of industries. Rather than train people, the solution becomes a technological fix: provide machines that no longer need skills, develop automation in a direction where training is no longer necessary.

And I think this is a very shortsighted, if not disastrous, direction of development. It warps the potential of automation both in a productivity sense and also in the human sense in terms of the erosion of the quality of life on the job.

It is easy to see why a technological fix, in many instances, is preferred to the amount of investment and resources necessary for adequate training. Simply put, training is measurable. The dollars that go into training today are very measurable. It is a very easy thing for a firm to say, we will not invest in training because the consequences only show up later. It is a little bit like trying to economize on your vehicle transportation by not changing the oil in your car. You will certainly be able to measure the very realistic savings right away, but the ultimate damage, I think, comes later but is far more serious and costly.

In fact, it is ironic that by developing very complex machines and systems to avoid training and retraining people, we wind up with complex, expensive, prone to breakdown technological systems, which, if anything, do not begin to realize the potential of computerization.

The choice is not between the development of new technologies based on microelectronics and conventional systems, the choice is developing technology in a way that can fully utilize the skills and the extraordinary human talents that are uniquely available. But this requires an investment and a considerable investment in training and retraining.

Today, in areas such as metalworking, much of the success or even the limited success of certain industries is based on skills that were developed in the 1950's and 1960's and not developed since. Obviously, these skills will not be around forever, and the lack of training even could become more costly as we proceed.

But the technological transformation underway has far broader implications than simply a question of fitting people into new slots, as critical as this is. The real issue, I think, is the fact that we may be experiencing a shortfall of jobs and training. No matter how effectively training is carried out, it is not a substitute for an adequate number of jobs.

The pattern, the career pattern in industries today, such as auto, steel, and other manufacturing industries, is that the high unemployment was the result of market forces or failure in the market, a result of a variety of market-related things. But the number of people that will be called back to the job will be directly dependent on the way new technologies are used. I think here the picture is very grim and very clear: high tech alone will not provide nearly enough jobs for those people who have already been displaced.

In fact, if we look at overall projections for the economy, such as those done by the Organization for Economic Cooperation and Development which were released in July 1983, the report predicted real GNP growth in the United States would be 3 percent in 1983 and 4.25 percent in 1984. Nonetheless, according to the OECD, unemployment could remain as high as 9.5 percent in 1984.

And if anything, I would argue that the OECD dramatically understates the impact of technology on employment. So these figures, if anything, in terms of employment are conservative, yet they posit relatively optimistic rates of growth.

Beyond this in many industries automation is being introduced in a way that polarizes the work force with a small number of highly skilled jobs at the top which are relatively well paid and a much larger number of less skilled and less desirable jobs at the bottom.

This not only creates a social problem, it creates in particular new problems for training and retraining, because many of the intermediate steps which traditionally people who are displaced from one occupation were trained into are no longer there. This means that the jump in many cases is a much larger one and the length of training required and the resources required to fit people into the new slots that are opening up are correspondingly also much larger.

In conclusion, I think it would be a mistake to underestimate the very rapid and pervasive nature of technological change today and the clear implications this has for training. I think a substantial amount more Federal coordination and resources are necessary to insure that the right jobs are targeted for training. I think the focus on pretraining—that is, training people who are currently employed—is far more effective than retraining people after they are unemployed.

However, we are not starting from ground zero today. The one thing that I think is of critical importance is the fact that we have already 9.5 percent of the work force unemployed and many millions more in involuntary part-time work, which is an effective form of hidden unemployment. So that the real danger is that the long-term unemployed will receive the least adequate training as they lose ties to the industries in which they once worked.

I agree with Mr. Friedman that instruction in skills alone does not constitute a meaningful retraining program. A stipend and the resources to move into new jobs are absolutely necessary. But even here, for many sections of the country, retraining and stipends alone will not be enough. In areas such as Detroit that have been devastated by technological change or that may be devastated by technological change, and certainly have already been devastated by the market failure of the automotive industry, more than simply retraining and relocation is necessary.

The development of industries capable of using the existing skills and resources as part of the larger industrial program is vital. To seriously talk about retraining is to talk about the commitment of a substantial number of resources. The only thing that could be more expensive is doing nothing in this area. Thank you.

[The prepared statement of Mr. Shaiken follows:]

PREPARED STATEMENT OF HARLEY SHAIKEN

Microprocessor and computer technology are being used to revamp virtually every occupational category in the economy, totally automating some jobs and dramatically redefining others across a range of industries from semiconductor production to locomotive manufacture. Adequate training for those individuals who are affected by these far-reaching changes is essential both for a humane transition and a productive use of the new technologies. I would like to explore three aspects of the technological transformation underway and their implications for providing effective training programs: first, the magnitude and unique character of the technological changes taking place; second, the consequences for the development and use of automation of inadequate training; and, finally, the disturbing reality that training programs, no matter how well conceived and executed, will not make up for a short fall of jobs.

Under virtually any circumstances, training and retraining are important concerns. Today, however, with exceedingly rapid and pervasive technological change as well as high unemployment, training is an especially critical issue. The scope of the technological changes taking place today is unprecedented. The decreasing cost and increasing sophistication of microelectronic components makes possible an extraordinary range of automated equipment. In the factory, computer technology is the basis for new forms of automation such as robots, computer numerical control (CNC), flexible manufacturing systems (FMS), automated material handling, and a host of other machines. Most analysts feel that the growth of the market for factory automation will be rapid in the coming decade, although obviously it was temporarily slowed by the recession. Typical is the prediction by Predicasts, a Cleveland-based consulting firm, that factory automation sales will grow at a rate of 15.2% annually, rising from $7.5 billion a year currently to nearly $15 billion in 1987, and $37 billion in 1995. General Electric projects a market for factory automation in the neighborhood of $30 billion in the early 1990's.

While automation in the factory may not be a new story, the extraordinary versatility of computer technology also affects the office and the service sector. As word processors, electronic mail, and a variety of other technologies are introduced into the office, the market for office automation could rise even more rapidly than in the factory. Dataquest, for example, projects a possible annual growth rate of 34% a year through 1986 for all electronic office equipment. Moreover, there is also an explosion of new technologies in the service sector. Services now comprise 30% of total business investment, a rapid climb from only 16% in 1975. (The investment per service worker soared from $415 in 1975 to $816 in 1982). And the investment of $1,000 in the less capital intensive office or service sector has a proportionately greater impact than in the factory.

In whatever economic sector investment in new technology takes place, it represents only the beginning. Aside from the level of investment, the development of computer-based automation is characterized by a systems approach and by rapid technological change. In the past, the introduction of a new machine might affect one or even several occupations while leaving the rest of the production process untouched. A new lathe in the factory, for example, would certainly not directly impact the engineering department. Today, however, computerized systems are transforming operations from the point an engineer conceives of a product to its actual manufacture. Computer aided design (CAD) not only affects what a senior design engineer does but transforms other subsequent occupations such as tool design and eliminates other jobs altogether such as drafting. Moreover, while traditional industrial equipment may have become slowly obsolete over a decade, programmable machines and systems can often become very dated in three to five years.

Past and current failures in the area of training, aside from their incalculable human cost, now carry a serious, though hidden economic burden: the skills are not available at critical points in both operation and maintenance to effectively utilize many of the new systems. This burden is exacerbated by a technological illusion that computerized processes always require fewer skills. In fact, in certain areas just the opposite is true. Carefully honed and well developed skills are necessary for the most efficient operations. Computer numerical control or computerized machine tools are a case in point. While the minimal skill level necessary to operate these machines is far lower than conventional equipment, the minimal level is not necessarily the optimal level. How much productivity does a firm lose by putting a million dollar machine tool in the hands of a partially trained person? The answer is difficult to quantify, but the problem is very real. Nonetheless, there are powerful economic pressures that lead firms not to provide adequate training. The savings, for example, in not providing training shows up immediately while the decline in needed skills may only appear in the future.

In many cases, a technological solution appears as an alternative to an effective training program. Rather than training more skilled workers, automation is developed in a way that requires fewer skills. After all, the cost of training is often high and clearly measureable but using technology to eliminate skill appears to be part of the onward march of progress. An article in the trade press makes the point under the headline "Automation Becomes Vital: A Shortage of Skilled Workers Is Forcing Firms to Turn to Computerized Machine Tools." George P. Sutton of the Lawrence Livermore laboratories elaborates:

> Many users, faced with the problem of a less capable and skilled work force in the future, believe that one solution is to partially remove the machinist from the operation of the machine tools. By relying less on the man in the decision-making process in this operation, by further automation, and by going even more toward....simple operator controls, it is possible to lower the skill levels of the operators of machine tools and reduce their required numbers.

Utilizing automation as a substitue for effective training can be a shortsighted and ultimately very costly strategy. For one thing, seeking to totally eliminate human input often results in exceptionally complex and costly systems which are prone to breakdown. Ironically, even more sophisticated skills are necessary to conduct the repairs. For another, systems that are designed to minimize or eliminate human input are incapable of fully utilizing the extraordinary and unique human qualities of skill, experience, initiative, and creativity. Systems that depress skill, however, frequently degrade the working environment. The most effective direction of development would result in computer systems that expand and enhance human skills rather than fully eliminating them. For this to happen requires, among other factors, that the resources be invested to develop those skills.

Today in many industries such as metalworking production relies on skills that were developed in the 1950's and 1960's. These skills will obviously not be around forever. Delays in providing effective training do not eliminate the problem, they merely postpone its resolution to a time when it will be more difficult and costly. This lack of training is especially tragic during a period of high unemployment when there are so many capable individuals seeking to expand existing skills or to acquire new skills.

The technological transformation now underway, however, has far broader implications for employment than simply the question of training, as important as training is. First, automation could prove to be a central factor in creating fewer jobs than the number of people who want to work. The pattern today in many industries such as auto and steel is that workers who were temporarily displaced as a result of the market downturn or foreign competition will be permanently replaced as robots and other new technologies are introduced. High tech industries themselves promise far fewer jobs than the number of workers already eliminated in manufacturing. A Data Resources study, commissioned earlier this year by Business Week, projected that high tech might only create in the next decade fewer than half of the two million manufacturing jobs lost in the last three years. Even if the economy grows at a relatively rapid pace the shortfall in jobs could still exist. In the semi-annual forecast of the Organization for Economic Cooperation and Development (OECD), released on July 12, 1983, the report predicted real GNP growth in the US of 3% in 1983 and 4 and 1/4% in 1984. Nonetheless, unemployment could remain as high as 9 and 1/2% in 1984, according to the OECD. The unfortunate fact is that retraining merely provides new skills to the unemployed unless sufficient jobs are available.

Second, in many industries automation is being introduced in a way that polarizes the work force, with a small number of highly skilled and well paid jobs at the top and a much larger number of less skilled and desireable jobs at the bottom. The particular problem this poses for training is the lack of intermediate jobs that could serve as an effective career ladder. In conventional manufacturing, for example, an assembler could train to be a toolmaker, a toolmaker could become a tool designer, and a tool designer could progress to other engineering work. What happens when entire intermediate occupations are largely automated?

Finally, many of the jobs that are being created in the economy as a whole are not comparable either in pay or benefits to those that have been eliminated. There will be a need for 400,000 additional workers in fast food restaurants, according to the Bureau of Labor Statistics, hardly a career advancement for unemployed steel workers.

In conclusion, the rapid and pervasive nature of technological development makes retraining a critical priority for the workers who are displaced and an important component of economic growth. Retraining, however, should not be viewed as a substitute for the creation of an adequate number of jobs. A number of points might be useful to consider:

-The simplest and most direct method to insure that retraining takes place is probably a direct subsidy to the training institution, particularly when smaller firms are involved. Federal coordination is necessary to insure that the right jobs and the right number of jobs are targeted.

-Pre-training, training that takes place before unemployment results in industries that are undergoing major transformation, is preferable to re-training once unemployment results. A real danger, however, is that the long term unemployed will receive the least adequate training as they lose ties to the industries in which they once worked.

-Instruction in skills alone does not constitute a meaningful retraining program. An adequate stipend while training takes place and sufficient financial aid to move into a new job are necessary.

-An awareness that communities as well as individuals are involved. When a city such as Detroit, based on an industry that is being restructured, is involved more than retraining and relocation is necessary. The development of industries capable of using existing skills and resources is important.

Any meaningful training program will of course be expensive. The only course of action more expensive is inaction.

Representative **Lungren**. Thank you, Mr. Shaiken. I want to thank all of you for your testimony. You obviously came at it from different perspectives.

I wonder if we can focus on the major concern of this hearing, which is trying to define the magnitude of this problem. There does seem to be at least some difference of opinion with respect to that.

I am interested in, Mr. Bendick, how you would respond to the differences of opinion expressed here about the magnitude of the displaced worker. I wonder if we can try to define specifically what we are talking about with respect to the displaced workers, and maybe out of that we might get some explanation for the difference of opinion, and maybe not.

Mr. **Bendick**. The number which I have been suggesting to you of about 100,000 displaced workers is a population of people who are both displaced from their jobs in the sense that the job has disappeared and are not likely to come back and who have not been readily reabsorbed by alternative employment and would not be readily reabsorbed by alternative employment even in a national economy approaching some form of full employment. In other words, these are people who are reachable by macroeconomic prosperity alone.

What Mr. Friedman has described is a very large flow of people who have lost their jobs. Some of them will go back to their old jobs if the economy can be brought decisively out of a recession. Some of them would go back to other comparable manufacturing jobs but not back to exactly the same old job.

The number who are left permanently behind is a hardcore that corresponds, in my mind, to something like the long-term structural unemployment problem. That is the smaller number that I am talking about.

Representative **Lungren**. Let me just ask you this question with respect to something Mr. Shaiken said. He said the current technological change is different from that which we have seen in the past, such that the absorption of those people who have lost their jobs as a result of technological change in the past is really not applicable to what we have now and what we will see in the future. How do you respond to that?

Mr. **Bendick**. Well, it is possible that we have suddenly in 1983 entered an entirely new world which has no historical linkages to the past. But there is nothing in the past that says either that this prognosis is correct or that those sorts of very sharp discontinuities in history take place. We have had recurrent fears of technological displacement over the years in economic policy debates. Prior to the current one, the largest previous one was in the early 1960's, when the Manpower Development and Training Act was created. That act was created specifically to take care of the problem of automation and cybernetics, which was going to wipe out large proportions of the traditional middle-class work force. And it did not happen then. And I believe there is strong reason to believe it is not about to happen now.

What Mr. Cetron and Mr. Shaiken have described are very profound technological changes, and when those are juxtaposed against what Mr. Friedman has described in terms of large numbers of unemployed people, it sounds as though the one is the cause of the other. But it is simply not true. What has hurt the automobile industry and put those 1 million or so automobile workers out on the street is an overvalued dollar, high interest rates, a tremendously deep and prolonged recession, and a number of similar factors. Career transition is not the problem in the automobile industry for most of those workers; the problem is macroeconomic policy.

Representative LUNGREN. Mr. Cetron, I wonder if you might just respond to Mr. Shaiken's observation that the technological change is so different in magnitude that the absorption of individuals who lost their jobs through technological evolution will be far different than what we have seen in the past.

Mr. CETRON. I agree 100 percent. I am saying not only are we in a position where we can, we are going to lose a lot of people because of robotics. And we are.

And the reason that I differ with Mr. Bendick specifically in the same areas is because you are not going to hire a person back if a robot produces less than 1 percent scrap and people produce 15 percent scrap, 16 percent of the paint is used and 40 percent is saved. That robot is here to stay.

In addition to this, it is nine times better than a Wednesday car, Wednesday being the best. Monday they are hung over. Sometimes Friday four or five bolts go on. Wednesday is our best and a computer and a robotic car is made nine times better. Therefore, the guys are not going to get called back to put out junk. Simple as that.

Now, getting back to where more jobs are required, as Harvey said, I think the answer very simply is true, we have to get people retrained to be able to sell robots, to market robots, export robots, schedule them, service them. We can have many, many more jobs. But the point very simply is we are not training people for those jobs.

Representative LUNGREN. Let me ask this then of you: If we were training people for the jobs as you envision us doing, if we had the will to do so, would the jobs that they would be trained for that would be newly created in the new technologically evolving industries, make up for those jobs that are lost from traditional positions?

Mr. CETRON. Not only would they make up, I think they would make up more than required. However, it is going to be different. You have to remember we are in a different philosophy now. We are shortening the workweek. There may be two people doing one job, getting paid the 40-hour salary. It is called job sharing. There is nothing wrong with it.

As a matter of fact, to be very honest, to take a look at it from a practical point of view, with more and more two-earner families working, two spouses working in one family, if both families are working by the year 2000, 20 hours each, a family is still putting in 40 hours of work. Salaries are higher. We are getting more for everybody, but there is a feminist movement taking place. It is a major change.

Part of the problem that Mr. Shaiken identified, and I will say the same thing, is called the Harvard Business School. It is a major problem. It is called bottom line, bottom line, bottom line. So with this bottom-line complex, we do not spend money for research and development, we do not spend money for training, we do not spend money for education, because that has a long-term payoff.

Representative **Lungren**. Maybe we are looking at the wrong bottom line. Pay me now, pay me later.

Mr. **Cetron**. It is the same thing. Productivity in this country, we spent $100 per factory worker between 1971 and 1980. We have an 84-percent increase in productivity. Japanese spend $240, they got a 350-percent increase in productivity. And the female job, talking about the office, we spent $6 per average. We got a 4-percent increase in productivity over a 10-year period.

We cannot afford to compete like this. It is impossible. I am saying we can get more jobs available and we can get people retrained and reeducated for them.

I differ greatly with Mr. Friedman with this business about should the unions be in there to approve what job training takes place. I disagree because they only approve jobs that will not take away from people working now. Housing rehabilitation technicians, we have 46 percent of the black community urban centers who are not working today.

There is no reason we should not have a program and teach those kids living in public housing how to fix a boiler, how to fix a window, how to take care of caulking, fix an electrical switch or plumbing device. Those are minor. After they fix up their own and get paid—maybe less than union wages but work something out—they may even want to go to the local area because people cannot afford to pay some of the wages of some of these people. But it gets them back to work.

I think we have short-sighted techniques. It is not high tech; a lot of it is service. But I think we are not even approaching it. And if things are bad for the automobile workers now, think of what it is going to be in the future. The car by 1987 is 50 percent plastic. By 1990, 92 percent plastic. The steel industry is never going to come back again. They do not need it in the automobile industry.

In addition to this, the average car lasts 7 years and 8 months right now. That is longer—since 1946, right after the war, by the year 1990 the average car, because it is made better and because of robotics and computer-aided design and manufacturing, will last 10 years. If we go to plastics by the year 2000, it will last 20 years.

You know what that is going to mean? General Motors will become General Robots, the biggest manufacturer of robots in the world. This is crazy. No one is even looking forward. We are all looking backward. Our hindsight is better than our foresight by a damned sight.

We have to remember what the corporations are looking at today. Four key words: innovate, automate, emigrate, or evaporate. Very simply, if we do not start automating and get back into that phase, we are going to go overseas. Then we are going to lose our jobs as well.

As a last comment on the whole thing, you talk about the problems involved right now—and unions are definitely keeping people from getting retrained for high-tech jobs because they get paid half what they did before. Comparability is not going to be there.

It will be the elite who are getting paid a lot more for unique jobs, and most of those will be people who cannot be automated: the sculptor, the writer, the artist. These people are going to get the highest salaries around. A lot of jobs cannot be automated, and that is what is going to happen. We are going to have to go back and retrain.

Very honestly, we know why. Let us not kid ourselves. Up to the age of 21 we are learning a trade. From 21 to 25 we are learning the tricks of the trade: informal chain of command, how do I make the boss think he thought of it first, he who hath the gold maketh the rule. From 25 to 35 we practice the trade with the tricks of the trade. From 35 on we have forgotten the trade and are practicing tricks. We are going to have to go back and get retrained, and this retraining is for all jobs across the board.

We are not trying to kid ourselves. The trouble is we are not spending the money. We do not realize it is a major priority. If we talk about differences between income working, think of what it is going to mean in terms of education. Since the Gutenberg press, we have spent $1 billion for educational books. Between now in 1983 and 1990 we are going to spend $1 billion, the same amount for educational computers. Only 30 percent are going to be bought by the schools, 70 percent by parents. If the parents are going to educate their kids at home, the rich are going to get a better education than those who cannot afford the computers.

That is de facto segregation. That is a major problem. Computers can also be used for retraining. I think the problems we are talking about are grosser, are larger than just unemployment today. We have long-term problems.

Representative Lungren. Mr. Friedman.

Mr. Friedman. I will try to keep my remarks briefer than Mr. Cetron did.

The implication that drunk autoworkers are responsible for quality problems is insulting, to say the least. If you look at quality in the U.S. automobile industry, by and large the problem historically has been that corporate management has not placed adequate priority on it. That is the real issue. And in the last few years they have had their pants knocked off as a result and have begun to take major steps to improve quality, which are paying off very measurably in substantial increases in quality.

But to denigrate the workmanship of U.S. automobile workers as Mr. Cetron did I think is both misleading and wrong. That is not now and has never been the problem with respect to the quality of U.S.-built automobiles.

In fact, if you look at the statements by foreign-based manufacturers who do come to the United States and set up shop here, if you look at the statements of Volkswagen of America or Honda, which is now building automobiles at a plant in Ohio, unless those manufacturers are deceiving the public, their statements are that the quality of workmanship by American autoworkers is as high or higher than anywhere in the world, that the Rabbits built in Westmoreland, Pa., are higher in quality than those built in Wolfburg, the Hondas that are built in Marysville, Ohio, are in fact, according to the corporation, higher in quality than those built in Japan.

So I beg to differ with Mr. Cetron that the problem with quality—which we acknowledge has been a problem—is attributable to drunken autoworkers.

On the issue of whether the cause of the loss of jobs in the automobile industry is a cyclical or a structural phenomenon, I want to kind of analyze Mr. Bendick's statement a little bit. I think he is right about the causes of the loss in the last 3 years. He says it is a macroeconomic problem: tight money, high interest rates, overvalue in dollar. the combined effects therefore of recession and massive increase in imports. Exactly right.

Representative LUNGREN. That did not just happen in the last 3 years, though.

Mr. FRIEDMAN. Three to four.

Representative LUNGREN. We have had difficulties in the automobile industry for the last decade, have we not?

Mr. FRIEDMAN. May I come back to that in 1 second? I just want to finish the point if I might, which is, he may be right about why we lost the jobs in the last 3 years, but he is exactly wrong about why we will not get the jobs back in the next 3 years. And that is the structural issue, the issue of new technology, and the issue of the rapidly increasing productivity. And that is why it is a structural problem and a major problem of worker displacement, not only in auto but in other industries.

So it can be quite true that the recession, the tight money, and the overvalued dollar are the proximate causes of the bloodbath we have seen in our industry in the last 3 years, and yet also true the problem for the long run is structural. Those jobs having been lost in this terrible recession are not going to come back in the recovery. And that is the point that I think Mr. Bendick fails to understand.

Representative LUNGREN. What would you define as the magnitude of the problem? What are we talking about as you would see it in terms of displaced workers in our economy in the next decade or so?

Mr. FRIEDMAN. If you press me for a number, I think the Congressional Budget Office figure of 3 million is a lot more realistic than Mr. Bendick's figure of 100,000.

Representative LUNGREN. Are you aware of any other studies that have been done than the Congressional Budget Office?

Mr. FRIEDMAN. The problem is what are we measuring. I understand there is going to be a one-time-only survey conducted in January 1984 by the Bureau of Labor Statistics, attempting to quantify the magnitude of the displaced worker problem.

There was also a provision in the Job Training Act to collect data on plant closings and economic dislocation. But that provision has not been implemented.

I guess what I am really saying is we do not know because nobody is collecting the data.

Representative LUNGREN. Let me ask you, just your sector that you are specifically concerned with, are there any estimates from the UAW as to the number of displaced workers that we will continue to have even if we come out of this recovery as best as we can?

Mr. FRIEDMAN. Our best guess is that the work force in the automobile industry after we get done leveling off with the modest pickup that we are having now is going to continue to shrink for the balance of this decade, even under reasonably optimistic assumptions, even if the market comes back, basically because of the combined effects of new technology and massive growth in imports and foreign sourcing, unless there is public policy to limit those things.

So our best guess is that we could easily see another couple of hundred thousand jobs lost by the end of the decade from the core automobile industry and associated with that another 400,000 or 500,000 supplier jobs.

Representative LUNGREN. Mr. Shaiken, let me ask you a question. This has to do with experience in the greater Boston area where Boston was basically on its economic rear end a decade ago. The textile industry and things associated with that had left it. It was as devastated or almost as devastated as Detroit is today.

Yet, since that time, we have seen Boston become involved in the high-technology revolution, entering it in a big way. From the California perspective, we would say it is a second Silicon Valley.

Nonetheless, there has been a tremendous transition there with the rather optimistic result as opposed to what many said would happen in the greater Boston area, and the entire State of Massachusetts, a decade or so ago.

Why cannot a Detroit duplicate the Boston experience? Why cannot the Boston experience be duplicated around this country? Why do we have the prospect of larger permanent unemployment rates as a result of the technological revolution when we have the Boston experience to point to?

Mr. SHAIKEN. I think there are a number of things that are peculiar about the Boston experience that you cannot really replicate all over the country. One of the key factors in the setting up the boom of high tech was the enormous concentration of educational institutions in Boston that provided much of the fuel for the boom in high tech when it first began taking off on Route 128.

But even if you could duplicate that elsewhere, how many high-tech centers can the United States effectively utilize? In a way, it is a little like saying, look, Japan has achieved enormous economic growth by being totally export-centered. That may work for Japan. It may work for one or two other countries. It will not simultaneously work for every country in the world to base its economic policies strictly on exports.

Also, I think the growth of high tech in Boston is worth examining a little more closely. For example, a recent study showed that of the workers in textiles in the Boston areas, in Lowell and elsewhere, only 3 percent eventually found jobs in the high-tech firms. So while high tech is no doubt important to the economy of Massachusetts, (a) it does not provide the largest amounts of jobs, services do; and (b) most of those workers who were displaced did not find a job solution to their own economic problems in high tech.

I think this really gets to a larger question, which is, in fact, how different is automation today?

Representative LUNGREN. I would like to interject one question here. If it did not affect a large percentage of the displaced workers, what was its effect on those people who, if you looked at historical models, would have been expected to go into the textiles industry? Was there an entrance into the high tech or high-tech-related industries by those people who in previous years or a generation back would have expected to move into the textile industry?

Mr. SHAIKEN. I think it would be a little hard to quantify. Certainly, some of those people did find jobs in high tech. Certainly, high tech again has been important to the economy of Massachusetts. But it has not been the white knight that solved the economic problems even in Massachusetts let alone under far less favorable terrain in a situation like Detroit when there are already several major high-tech centers in the country and when virtually every major industrial State is seemingly pursuing the same strategy.

I recently had the experience of looking at some of the promotional literature for Pennsylvania, Illinois, and Michigan. They are remarkably similar. All three seem to be intending to attract high tech as a solution to the problems in manufacturing. It will not work in all the States that are trying it. It may not work for the long term even in the States that have already been successful with it.

Mr. CETRON. Congressman Lungren, there are four things that are required, one of which is education, because you can get graduate professors to work as consultants and you get the graduate students as slave labor. That is important in an area that is part of the high tech.

The second thing that you need is an educational system that is putting out good—that the people want to stay there and when they graduate there is a good educational system for their kids. They have that in that area, Silicon Valley, Research Triangle, Salt Lake City, and northern Florida.

You have to have a good vocational group to service the things that are being done. They have it up there. A lot of those workers are old textile workers in the area up there.

Another thing happening a lot—and I did not denigrate our workers; what I am saying is computers can do it better because they do not drink to begin with. It is something else.

But in general, the places that are growing have been where there are nonunion or right-to-work States. And this is a problem. I do not mean to bring that up as a nasty, but it is a fact of life.

Mr. SHAIKEN. I would like to expand on this. In Boston with the Data Resources study that Business Week commissioned raises some interesting figures——

Representative LUNGREN. The only thing you did not mention is weather, and we have been told everybody is moving to the Sun Belt because of weather. My observation is you do not get that same sort of weather in Boston. So there must be more to it than that.

Mr. SHAIKEN. The seafood is good in Boston also.

But I think the Data Resources figures that were commissioned by Business Week I think are reasonable figures for the economy as a whole. Data Resources pointed to the fact that 800,000 jobs were to be generated in high tech in the next decade, which is fewer than half the number of jobs that have already been eliminated in manufacturing in the last 3 years.

I think it really raises the question, how different in fact is high tech today? And I think using the term "automation" itself is confusing because that raises all the old debates of the 1950's and 1960's. This automation today is in fact fundamentally different. One of the reasons it is so different is that we have a technology that has simultaneously affected every occupational group of the economy or every major occupational sector. I think that is one of the things that was so different. It is not only a question of robots displacing workers in the factory, but at the same time, traditional areas of opportunities, say in a bank or an office or the service sector, are also being closed off by the introduction of automation.

What we are faced with, I think the real danger we are faced with, is that we could in fact have competitive firms and we could have a very respectable economic recovery but at the same time reemployment will not follow. And the slogan, "Automate or evaporate," while it is very catchy, in all three cases sizable job loss might be involved.

So I think if we look overall, high tech certainly is not going to pull us out or provide the number of jobs that we need. And beyond that, as automation becomes more sophisticated, as costs drop even further, which they will, then it could become an even more serious problem that will really affect the character of the recovery.

It is not so much that automation in any real sense has resulted in the major job losses to date, but it is in fact having a major effect on the nature of the recovery and it may be our first high-tech recovery.

Representative **Lungren**. One of the reasons we are embarking on these hearings is that I do not think we in Congress have done enough thinking about the adequate Federal role in retraining. I am continually humble in the job I have. One of the things I have discovered is it is very difficult for us to forecast changes in the economy. Certainly, when we are talking about this, it is extremely difficult.

I cannot fathom, for instance, what the structure of the economy or the impact of the structure of the economy will be if we have a rather marked increase in the usage of home computers. What does that say about service industries? What does that say about people's ability to live in small communities and do the type of work they can do and that can then be funneled into via computer lines and so forth to other areas? What does that say about establishing small support groups in those small communities, sustaining jobs that we could not sustain otherwise because you would not have the services in those areas?

I do not know how well we can forecast it. I know there are tremendous changes. But I just reflect on a trip I took with my family across the country this year. One of the things we tried to see in my home State was the Gold Rush country of California. You certainly see the rapidity of change there, where just over virtually a two-decade period of time you saw cities that were created and then were gone. They had 70,000- to 100,000-person communities, and a decade later there is nothing left except what we like to preserve so we can remember what that 20 years was like.

I do not want to continually look back, but I am reminded that change has come rapidly in the past in a way that we were never able to fully anticipate nor forecast. And in some of the suggestions I have heard here—and obviously I am having these hearings because I think we ought to be concerned about it—but some of the suggestions almost assume that somehow we are capable of making some rather fundamental decisions on the governmental level with respect to where these changes are going to take us.

And my fear is, what if we make a major mistake in estimating where those changes are going to take us? Do we retard our development toward the technological revolution? And I would query in the Boston situation, what if the Federal Government had entered in a massive way to try to maintain the textile industry in Boston, would that have removed capital that went in fact to the high-tech industries to preserve jobs that were there but ultimately when the point of no return comes when you just cannot be competitive in the world marketplace?

And at that point, would Boston have been in far worse shape than it is today because of not building on its strengths and not moving on the direction of high technology but trying to preserve a past that just cannot be preserved in this era of rapid technological change?

And, you know, I am flattered oftentimes by experts who come here and testify that somehow those of us in Congress have this ability to get the people to decide what is going to happen out there and therefore we should become directly involved in a massive way. I am not just not sure that we can find that ability.

Mr. **Cetron**. Congressman Lungren, there is a problem. You can take a look at all the data, including economists. You get seven economists, you get eight options. But if you are taking a look across the board, almost everyone will tell you that between now and the year 2000 you are going from 4 percent in agriculture to 3 percent, we are going from 26 percent in manufacturing to between 8 and 11 percent because of increases in productivity with automation, robotics, and everything else.

It means you are going to roughly 88 percent of the people will be in the area of service sector. Under those conditions, half of it has got to be information. That means you are talking between 40 and 44 percent. Under those conditions, half of them can work at home in the small community. You can get connected at home. There is a lot of social problems you run into also. In a small study of 150 couples who both have computers working at home, the divorce rate quadruples. Too much of a good thing.

I know it sounds ridiculous, but I am talking little social things that are important. You have got to be in a situation of saying, what do we do across the board? We are not all going to be high-tech centers, as mentioned earlier. There are going to be a lot of people in the service sector. We have got to get ourselves lined up to say, what do we do?

Representative **Lungren**. Is the lesson that you take out of this that, No. 1, obviously, to prepare for the future we must have a greater dedication to the educational resources and how they are applied to our younger people, but in the interim for those people already in the job market and for when our young people grow up, a continuing retraining, at least possibility, has got to be there? Do we have general agreement on that? Is there anyone who disagrees with that?

Mr. **Friedman**. I would not disagree. I think the fundamental point is we have got to learn that the word p-l-a-n is not a dirty, four-lettered word. It is an important function of Government, one which corporations recognize the importance of all the time. That really is our problem. We just have not a consensus in this country about the need to engage in the sort of planning that we need to do to develop into the kind of future that we all want to see happen.

I agree with you that it is not easy to do that kind of planning. I agree with you that mistakes could be made in the process of trying to do the planning. But to not attempt it at all I think is the worst folly of all.

Representative **Lungren.** I would just suggest if the Government makes a mistake, it affects all of us. If a corporation makes a mistake, it affects that corporation. As I say, I drove across country, been to places like Alliance, Kans., Allison, Colo., places you cannot even find on a map. I find it hard to believe that those of us in Washington can figure out what is best for those communities in very, very important ways and somehow master-plan the economy to effect that.

So I do not go that far. At the same time, we ought to be doing something with respect to the basics; and the basics, to take an example, include, among other things, looking at antitrust policy, and asking what its implications are. And in this context, the whole educational concept, what is Government's role, what is the private sector's role?

And I would like to ask all four of you to respond to this: What is the proper role of the private sector on the business side to the question of training and retraining of their employees as we go through this period or as we enter even more firmly this period of rapid technological growth in industry? Is it something that can best be worked out in the private sector? Should it be directed by the Government? Exactly what do you perceive to be the way it should be engaged in?

Mr. **Shaiken.** I think the private sector carries very far-reaching training programs which it has done successfully. But I think overall in terms of retraining, the private sector has certainly failed. In many respects, it has failed because of training internally.

The fact that there is a shortage of machinists in this country today, while there is some dispute over the size of it from small shopowners as well as for large companies, there is a shortage of real skills in metalworking today, that is more difficult to understand, given the high levels of unemployment and the availability of candidates for retraining.

So simply leaving this job to the private sector alone I think would be a big mistake. It would influence very fundamental issues of training and retraining which underpin the successful operation of the economy in many industries to very short-term gains.

I think we need a broader participation in the way those decisions are made. That includes public participation and also includes participation by those workers who are directly affected through their unions and the way these decisions are made. Skills and the development of skills, the resources to do that, I think go beyond what any single corporation can do.

And simply to use the balance sheet as the way we determine our long-term needs in this area which so fundamentally affects the entire operation of the economy would be a mistake.

I think, in addition, simply relying on the private sector would insure that those workers who have lost direct contact with their industry or who have been laid off too long would fall between the cracks. And I think that would be not only economically very poor but personally a tragedy for the workers in the community involved.

Representative **Lungren.** Mr. Friedman, let me ask you in this way: Do you believe that the effort that General Motors and the UAW have unveiled this past week for retraining about 9,600 workers in the announcement that came out of Flint, Mich., is one that is better served by keeping the Government out of it, or is there a role for participation by Government in this particular program?

Mr. **Friedman.** We are very proud of what we have been able to do in collective bargaining in the whole area of training and retraining. And we intend to continue to do more through collective bargaining. But we are the first to admit and acknowledge that while we may be able to serve the needs of some thousands of workers through collective bargaining, in fact there are millions in need and we just cannot begin to come to grips with the total dimensions of the problem through collective bargaining alone. I think it is very much a public sector responsibility, as I tried to indicate earlier.

In terms of the Government role in Flint, I do not know the details, but I would be glad to check for you and let you know.

Representative **Lungren.** I would appreciate that.

[The following information was subsequently supplied for the record:]

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INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW

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VICE PRESIDENTS
BILL CASSTEVENS • DONALD F. EPHLIN • ODESSA KOMER • MARC STEPP • ROBERT WHITE • STEPHEN P. YOKICH

September 28, 1983

Congressman Lundgren
U.S. Congress
Cannon Building
Room 328
Washington, D.C. 20515

Dear Congressman Lundgren:

During the September 16 hearing on the retraining needs of the long-term structurally unemployed, you asked if there was any federal rôle in the funding of the UAW-GM Flint retraining and training program.

Over $7 million has been committed to the first year of this program from the special UAW-GM training fund. There is no federal funding involved. Enclosed is a press release outlining the new program.

Sincerely,

Sheldon Friedman
Director
Research Department

NEWS FROM THE UAW

Public Relations and
Publications Dept
8000 E. Jefferson Ave
Detroit, Mich. 48214

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA

FOR RELEASE: Immediate, Thursday, September 15, 1983

UAW & GM ANNOUNCE $7 MILLION RETRAINING PROGRAM

The UAW and General Motors today announced a comprehensive retraining and training program to serve some [illegible]00 laid off UAW/GM workers.

The project includes a Regional Employee Skills Development and Training Center that will assess the availability of jobs, train workers and assist them in securing jobs within the GM system and in other industries. Over $7 million has been committed to the first year of operation.

UAW Vice President Donald Ephlin, who directs the union's General Motors Dept., and Alfred S. Warren, Jr., vice president in charge of GM's Industrial Relations Staff, announced the joint endeavor which has implications that extend far beyond Flint.

"We view this as a sound approach to ensuring job security and future employment opportunities for UAW members at GM," said Ephlin and Warren. "This program is a prototype of other training centers that need to be created to address the changing demand for skilled workers in the technologically dominated industrial world of the 1990's and beyond," they added.

"The Center program will be designed to meet a broad range of employee development and training needs but it will be much more than that. Above all, it will be a joint process of wide scope, from co-direction to joint staffing. From this experience, the stage will be set for further growth and understanding, all of which can do nothing but improve the Quality of Work Life for all."

UAW Region 1C, based in Flint, includes GM operations in Lansing, Adrian and Tecumseh, where there are virtually no layoffs, as well as Flint where GM's current layoffs total some 9,300 workers, including about 5,900 who still have recall rights.

The Flint project is the second major job training program undertaken jointly by the UAW and GM within the last year as a direct result of the historic collective bargaining agreement negotiated between GM and the UAW in March of 1982. The agreement established a Joint Skill Development and Training Committee to promote training, retraining and related activities to upgrade the skills of GM workers nationwide.

Last September, GM, the UAW and the State of California signed an agreement to provide about $10 million for counseling, retraining and job placement of laid-off workers from two idle GM assembly plants at Fremont and South Gate, California. That program has been in operation since late last year and will continue through 1983.

Funding of $4 million for the California project also came from the special UAW-GM training fund. The remainder of the money is a combination of State and Federal funds in that case.

Ephlin and Warren said the Flint project includes several unique features, including these:

- Development of a working model of labor-management cooperation focused on the needs of laid-off workers as well as retraining currently employed workers whose skills are expected to become obsolete in the future.
- This plan is designed to help eligible employees, whether active or inactive, to pursue self-selected formal education or retraining to improve their chances of re-employment or advancement within or outside of General Motors.

- Utilization of a broad-based employee committee to review training program design, identify employer needs in specific occupations, and assist in the placement of re-trained personnel.
- Employer-specific training in demand occupations, such as computer systems operations, statistical process control, electronics, building maintenance, word processing, machinists, medical technology and so on.
- Remedial training for those who require development in basic reading, mathematics and communication skills.
- In-plant training of active workers whose jobs face obsolenscence, which would be an on-going effort designed to shift emphasis from unemployment to employment as changes in the auto industry require.

"The program will be linked to the community network of educational institutions, private industry councils, social service agencies and employment service-economic development agencies," Ephlin and Warren said. "With its broad-based support, we feel confident the program will succeed."

Representative **Lungren**. Mr. Cetron.

Mr. **Cetron**. I think there is a Government role, but I think there is also one for private business. Private industry councils are allocating dollars for the Job Training Partnership Act. I think that was a good move in the case of the administration, because what they are saying is, we want the private corporations to help in the training. It is much more difficult to have a company train somebody and fire them than it is, say—the unions and the local organizations, local cities or counties to train someone and say—would you like to hire this person? He says no.

I think that is a good indication of what the Government's role can be: Guidance. When it comes to education, I feel strongly that they should be setting standards and say, you do not get Government funds unless you go to 210 days and 7 hours of school, an hour and a half of homework instead of an hour and a half a week and getting away from the attitude of getting our three most important courses being gym, driver's education, and typing. Getting back to English, math, physics, having some of the local schools in fact giving guidance. Look, there is no reason why you cannot give a kid—not a letter for football, basketball, or baseball, but a letter for being a math leader or a chemist.

A lot of the money being spent—and Federal money as well that is being used to help in large football stadiums, when it could be spent to expand computers.

Representative **Lungren**. Mr. Cetron, you criticized some of the PIC organizations in the past, the way they worked in the past, also the Federal Government for failing to anticipate what the type of jobs will be as we look into the future.

What advice would you have for Government and for training administrators to determine the occupations of the future? Where should we seek that information?

Mr. **Cetron**. First of all, I do not mean to pat ourselves on the back, but in working and what our technology can provide not only from this country but looking at what they are doing overseas as well, what types of jobs could be there, what training is required, what schools are required, what the salaries will be for beginning salaries, mid-career salaries, the numbers required. We have been checking with corporations: How much training do you need, 2 weeks vocational education, on-the-job training apprenticeship, 4 years of college?

This is the kind of work that should be done. It is not being done by DOL. It is not being done at all. That is when to give guidance.

The second thing is I think they ought to be setting up standards whereby unless the money is being used to provide new jobs and training people, including the money to drive back and forth to work and the money to take care of babysitter to get these people off the dole. And there should be jobs made available.

And there should not be a welfare program where people are just home because of children. They should be given jobs made available, trained for jobs and have day-care centers set up.

I am talking about changing the whole operation. More of the same is not going to do it if we are competing with other countries overseas.

Representative **Lungren**. You are certainly talking about changing some things. Frankly, I think some people who are working, maybe not in the highest-paid jobs, would certainly support retraining programs, but I wonder if they would draw the line if we made available all those things, not only training but babysitting services and transportation to and from work.

A lot of people out there do not get that for their jobs right now. That is the ideal world, but we are not dealing in the ideal world.

Mr. Cetron. So what you do, you use leverage funds. If you tell a corporation, before you fire this person, we will pick up part, the Government will pick up part, and your local cities will, then you can make it worthwhile. But not all Federal Government funds—I agree, I do not think the old business of throwing money at programs is the way to go. I agree with you there.

Representative Lungren. Mr. Bendick, one of the statements you made that apparently is not shared by the others on the panel is this one. In your prepared statement you say:

> The pace of occupational evolution in the economy is sufficiently slow that most current adult workers can complete their working lives within their current occupations, and most economic dislocation can be absorbed by attrition.

On what do you base that statement? Because there does appear to be some rather strong differences of opinion on that.

Mr. Bendick. Those are the historical patterns of how change has taken place. Insofar as we can do studies right up to the minute, looking at current data—this year's data from the Current Population Survey, and so forth—those patterns seem to hold currently. It is difficult to know because we are in the depths of a recession, and until you come out of a recession you are only going on a forecast of what the longrun consequences or what the postrecession pattern will look like. But as nearly as we can tell, those patterns continue to hold.

I would like to respond to your basic question about the role of Government and the role of the private sector. I know Capitol Hill is not normally noted for long institutional memory, but I would ask you to go back within not more than a year when we used to have the famous cartoon Doonesbury. You remember there was a character in that cartoon, Joanie Caucus, who quit her job at the day-care center, went to law school for 3 years, and emerged like a butterfly from her chrysalis as a legislative assistant in Congress.

Representative Lungren. We cannot expand many more jobs like that. We have got quite a few.

Mr. Bendick. That pattern of retraining is what in the minds of many of the people talking about this issue today. That is, someone leaves a job, leaves a career, goes back to school for 8 months, a year, or more, and emerges with an entirely new occupation. That simply empirically is not the normal way in which the occupational structure evolves. What primarily is happening is people make small investments, they keep the same occupational title, and the nature of their role changes, and most of that happens to people who are currently employed.

There has been some mention here of high tech in the office, the automated office. Five years ago my testimony would have been typed on a typewriter. It was in fact typed on a word processor, but it was typed by the same person with the same employer—namely, the Urban Institute—who would have typed it 5 years ago. When word processing came to the Urban Institute, the secretaries were sent to school for a week. And they went through a month or so when they were learning how to use the equipment. And the transformation was made. That kind of transformation is really terribly characteristic of most of the transformations that go on within occupations and across occupations.

Because most of that takes place in an incremental fashion and within employment, I think you really want to emphasize the business role in making the forecasts and in providing training services. What I suggested in my testimony was that the Government role ought to consist of giving business an additional incentive to provide that kind of incremental training. I have suggested a payroll tax type of mechanism with a credit.

But I think that it makes sense to base the delivery mechanism on the business sector, and for the currently employed.

Once you are dealing with those who are unemployed or permanently dislocated, it is indeed true that the business sector is not going to deal with their problems. But it is a mistake to equate retraining with the process of reemployment. The empirical studies of where people go, what kind of training they are willing to take, and what kind of training is needed to get people reemployed suggest that most reemployment—again given a proper macroeconomic environment, which we still do not have, but given the macroeconomic environment which offers job opportunities—is that most of that reemployment is a matter of placement and job development rather than retraining.

There is a Government role for dealing with the long-term structurally unemployed who do not have the basic educational skills to get into the system. Those are the disadvantaged, the adult functionally illiterate, and the next generation coming up who should be moved initially into the new occupations which does require a higher level of training than the kind of training their parents had. There is a key Government role, a direct expenditure role in all of that.

Representative LUNGREN. There have been a number of policy options that have been presented in various pieces of legislation or talked about here on the Hill with respect to dealing with the question of structural unemployment, whatever the magnitude is. One of those was raised by Mr. Friedman, some sort of jobs bills based on public service. I would like you to respond to that. How does that fit in the equation dealing, in your opinion, with the question of the displaced worker?

Mr. SHAIKEN. I think a jobs bill would be in fact quite important. I think it really does depend on one's assessment of the magnitude of the change. If in fact it is only 100,000, then it would call for different measures than if it is 3 or 4 million.

I think the 100,000 figure is really spacious, since it does not even correspond to what has taken place in the automobile industry alone. I think the larger figures, whatever the exact figure may be, I think the larger categories are more appropriate, and I think they call for action that is equal to the challenge, which would have required some sort of job——

Representative LUNGREN. Let me ask you this question: The Job Training Partnership Act that we passed came out of the CETA experience, where we observed that most of the problems that we had and the waste of funds took place on the public sector side and the successes took place on the private sector side.

And this bill, the law that will actually go into effect on October 1 of this year, directs it to the private sector side and not to the public sector side. That is why I am asking the question. What is the magic or what is the benefit that is being promoted by redirecting resources—because we only have a limited amount of resources—to public service or public sector jobs as opposed to private sector jobs, particularly in an ever-changing technological environment where the experience has largely been in the public sector they train people for already existing jobs that are not necessarily transferable on the outside?

Really, it is a nice thing to talk about a jobs bill, but in that context, can you shed some light on why you would suggest that we need public service employment?

Mr. SHAIKEN. Because I think the private sector in fact, while certain of the things that are worthwhile have and will be done in this area, will be inadequate for the scope of the kind of challenge that we are looking at right now.

To simply point out what happened at CETA and say that generically this means that public participation in this area is inherently unworkable I think is really short-sighted. It blames—it takes what happened in one specific case with all its shortcomings and essentially extrapolates that to a much larger case where the administration, the design of the bill and various other factors could have a much different kind of an impact.

I think we are going to need something in addition to whatever the private sector is going to be able to do in this area. And I think that is going to require some type of public jobs bill.

Representative LUNGREN. Mr. Friedman.

Mr. FRIEDMAN. We have got 11 million officially counted unemployed, another more than 1½ million discouraged unemployed, 5.5 million involuntary public workers. I think we are talking about 16 to 17 million peope who needs jobs.

I agree with you in terms of the long run, we need to address the problems related to the structural change in the economy. But we also need to look at the shortrun problems too. And they are very interrelated because a lot of the things we could do in the short run would give us a better future infrastructure investment.

All the bridges that are falling down, all the hospitals and sewers and schools that are in disrepair, these are things that could be done now that at the same time would lay a basis for a better future. Public Service employment is needed too.

Representative LUNGREN. If that money comes out of the public sector, what about the job losses in the private sector?

Mr. FRIEDMAN. It does not.

Representative LUNGREN. What do you mean it does not? Who creates the money?

Mr. FRIEDMAN. When you have the kind of unemployment we have in this country today, you can put people back to work through public service employment without subtracting from elsewhere in the economy. We are running an economy that in 1982 was some $1,500 below its potential for every man, woman, and child. We had a recession that cost $400 billion in wealth that could have been produced if everybody who wanted a job had a job last year.

So in fact, as was done in the 1930's, as was done through the New Deal programs of the works progress administration—when I flew into this city I landed at an airport that was built as a result of a government program in place in the 1930's. When I grew up, I grew up in a town where the stadium where I went to see the high school football games was built in the 1930's through one of those work progress administration programs.

We have needs every bit as great today and unused resources alarmingly close to the levels that prevailed then. Similar kinds of programs, updated to be sure, could be very effective now.

Representative **Lungren.** I appreciate your position on that. I just would observe, we have had 6 million jobs created in the economy since December that were not there, and they were not created by the jobs bill that we passed last year.

The study that was done on the jobs bill passed by Congress showed more jobs were targeted for areas of high employment and less jobs were targeted for areas of greater unemployment. Where the jobs are targeted seems to depend on where the chairmen of the committees and subcommittees are from. I do not think you are ever going to subtract the political element in making those decisions.

And frankly, I really do not see how you say that if we take this money and we build an airport whether we need it or not in southern California, that you cannot get anybody to agree where to put it; "Not in my backyard, you do not," is the watchword there. That money has to come from somewhere, either from a deficit, a greater deficit that takes it out of the opportunity for capital investment, although borrowing in the private sector, or taxation.

Mr. **Cetron.** I happen to agree. What I am saying, in essence, is I think it is wrong. I think we need some quick-fix jobs. These people are filing potholes, building bridges, building stadiums. That is marvelous. But those people are going to lose their jobs right after the 1984 election. They are not going to be trained for anything else. It is a quick fix to get them out there yelling and screaming. That is all. They are not being trained.

And I think it is a short-sighted approach. It is a typical American approach. We worry about everything. We have a 2-week memory. We do not look at delayed goals.

When I was in China, we saw people who were working long term, working long hours saying, "I am not going to have my children's children. We believe in long-term growth. We believe in education. We believe in training." I said, "What is it about, Buddhism, Shintoism, or Taoism? What is this ethic you are talking about," He said, "In English you call it the 'Protestant ethic.' "

I think we have lost part of it and we are trying to throw money in programs. It is not an answer. The answer is, get people back in, let them understand they have to work for something, and train them to do that, not filling potholes. They will finish their potholes, they will lose their jobs in 1984, and they are not going to be prepared to do anything else.

The Government has got to work through private corporations. That is where the money is going to be at, even if they put leverage money over there.

Representative **Lungren**. Mr. Bendick.

Mr. **Bendick**. The careful evaluations which have been done, public service employment and other CETA programs, did not quite generate the record the way you characterized it, I believe. You said the success was associated with the private sector and failure with the public sector.

What was found was that public service employment, the job-creation programs, had very little longrun effect on people's employability, with the possible exception of middle-aged former public assistance women who seemed to benefit from job experience, and that seemed to help them in the longrun job market.

But for males and for most people involved in public service employment, public service employment meant income in the short run and no particular better job-market success in the long run.

Other CETA programs did explicit training and dealing with the population with which they were dealing, disadvantaged people, that did seem to promote their long-term employability much more successfully than simple job experience.

Representative **Lungren**. I want to thank the panel. We had hoped to try to draw a consensus today. We do not want to understate the complexity of this problem. My hope is that by paying more attention to it, by having a number of hearings on the question, trying to assess it, we might extend our horizons a little bit and deal with some of these questions before they come to us in a crisis situation.

I want to thank all of you for coming here and giving us some ideas as to the magnitude of the problem and the possibilities of solutions to the retraining task that I think is before us as we deal with the questions of structural unemployment now and in the future. Thank you very much. The committee stands adjourned.

[Whereupon, at 11:55 a.m., the committee adjourned, subject to the call of the Chair.]

INDUSTRIAL POLICY: THE RETRAINING NEEDS OF THE NATION'S LONG-TERM STRUCTURALLY UNEMPLOYED WORKERS

State and Local Responses to Job Retraining and Problems of Dislocated Workers

FRIDAY, SEPTEMBER 23, 1983

Congress of the United States,
Joint Economic Committee,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 2203, Rayburn House Office Building, Hon. Daniel E. Lungren (member of the committee) presiding.

Present: Representative Lungren.

Also present: Robert Premus and Mary E. Eccles, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE LUNGREN, PRESIDING

Representative Lungren. Well, gentlemen, welcome this morning. The hearing today is one in a series of hearings that we have had during the course of this year. We started on the overall question of national industrial policy—what does it mean and what does it not mean? What are the things that may or may not come within the rubric of industrial policy?

Following on to those hearings, we thought that we ought to have some hearings on the question of long-term unemployment because that question kept coming up from those who supported the concept of national industrial policy, as well as those who did not. It came up as a subject that we must deal with. And so in order to focus attention on this important issue, we are having a series of hearings. Today's are entitled, "State and Local Responses to Job Retraining and Problems of Dislocated Workers."

The structure of the U.S. economy is changing. Much of the labor force may be unprepared for this change and the new jobs it will create. This hearing, as I say, is the second in a series of four Joint Economic Committee hearings on the problem of long-term structural unemployment and human resource development.

Last week, the committee heard testimony on the number of structurally unemployed workers and on the need to keep the skills of the labor force current. Our objective in these hearings is to examine the Government's role in preparing American workers for the new jobs that the change is creating.

Of course, we all recognize that this undertaking cannot be adequately addressed by the Federal Government alone. A partnership, including all levels of government and business, is essential.

Workers who are most prone to be thrown out of work often lack the skills to find jobs in the new industries in the new sectors. When this happens, their families, their friends, their communities, suffer, as does the entire Nation. The social hardship and economic inefficiency associated with this condition must not be allowed to persist in the years ahead.

Surely, solving the problem of structural unemployment is within our grasp. The challenge confronting the Nation is to use its technology and resources to help workers keep pace with changing labor markets. Helping workers to keep their skills current is the best road to prosperity and job security for American workers.

The hearing today will focus on approaches that States are taking to meet the training needs of their workers in a changing economy. The committee is particularly interested in how States are designing innovative programs to respond to the unique training needs of their economies.

Also, the Job Training Partnership Act, which takes effect in its entirety next Saturday, gives States considerable responsibility for training. This committee would like to know how States are responding to the challenge and if a national training and policy based upon States and private sector cooperation is feasible and desirable.

The witnesses from California, Delaware, South Carolina, and the Ford Motor Co. have been asked to address these and related training issues, because of their diverse experiences and, in some instances, their attempts to meet these questions already. And we hope that those experiences can give us some ideas, some direction, as we consider the various proposals before the Congress to address this overall question.

I would like to thank the panel for being here, to welcome them, and to say that at the outset, all of your prepared testimony will be entered as a part of the record in its entirety. And if you wish to read from it or to highlight it, we would like you to proceed as you wish.

The first member of our panel to testify is Mr. Dennis Carey, the secretary of labor of the State of Delaware.

Mr. Carey, please proceed.

STATEMENT OF HON. DENNIS C. CAREY, SECRETARY OF LABOR OF THE STATE OF DELAWARE

Mr. Carey. Thank you very much, Congressman. I would like to split my testimony into two distinct parts, the first of which would be a summary of congressional options, and considerations in addressing the needs of the displaced worker. And I will not provide, which I think you have already done very nicely, what those needs are.

The second part of my testimony will relate specifically to our deliberations with the White House Conference on Productivity, a report which was delivered yesterday, and I can do that very succinctly.

While thoughtful, well-harmonized fiscal trade and monetary policies are a necessary long-term condition for addressing the challenge of the Nation's displaced workers, such actions, in themselves, are not a sufficient condition. Other actions are required. There are several possible approaches for your consideration that can be taken to directly address the displaced worker issue. While a number of variations on each of these concepts have been proposed, many of which you are quite familiar with, the following are the basic concepts now under consideration.

The first is the general revenue approach. Title III of the new Job Training Partnership Act is the latest of several federally financed displaced worker programs and is currently funded at $240 million for fiscal year 1984. Title III will likely become the primary vehicle used by the administration if alternatives are not created, since it was created with the President's support, offers flexibility in its operation at the State level, and would require some matching from the State governments.

However, if unemployment continues at double-digit levels, or thereabouts, this title could become a target for multibillion-dollar consideration.

Also, there is the potential for increasing the pool of available revenues by targeting funds via the vocational education reauthorization process which is now under consideration by the Congress and the administration.

With the use of title III funds, Delaware has recently completed a pilot program to assist dislocated workers. Statistics are oftentimes misleading, but I can report to you this morning that based on the first pilot phase of our project, that 80 percent of the program's completers being provided with job counseling and retraining assistance were placed during a 5-month period; and services were provided and current with receipt of collection of unemployment insurance benefits.

The best test for the success of this program is to ask the participants themselves. Since they are unable to be here today, I thought that I would express comments for them.

Interviewed recently by the local press, an exfactory employee who used to measure, color, and soften leather used in handbags, shoes and belts for the Seton plant in Delaware, which closed as a result of foreign competition, is now working in the Hercules Co. mailroom. She said, "I believe that if it were not for the program, I would not have this job. I would never have thought to come here. I thought I could not do it. And now I can."

Another participant worked at Atlantic Aviation Corp. assembling and installing aircraft interiors until he was laid off permanently in November 1982. Through the program's job development, training, and counseling services, he is now working as a lab technician in quality control at Ethyl Corp.'s plastic plant in Delaware City. He said, "The program helped me put my skills in perspective, so I could relate it in an interview and sell myself to the company."

Many of these people needed counseling and job search assistance. I think that those two elements are the most critical in any program, and that we should view the issue of retraining very carefully. I suspect that there is some possibility that there are perhaps some unemployment insurance recipients who may view the possibility for retraining and career change as an opportunity to ride on the unemployment insurance system a little bit longer than they normally would have.

So I think retraining should be a condition only after counseling and job search development activity have been unproductive.

We have found that approximately 25 percent of the total population served in Delaware actually need retraining for new skills.

The second issue for congressional consideration is the individual training account concept. At its core, the ITA approach would involve setting up a new displaced worker found based on contributions from both employers and employees alike, which I think is a critical dimension in this effort. The ITA could only be used for retraining and possibly relocation of displaced workers. Upon the worker's retirement, the unused portions of the individual's ITA would be returned to both employers and employees alike and could be established through a revolving fund similar to the IRA.

This concept could be built into the existing unemployment insurance tax structure and could be modified to include general revenues from the Federal Government.

The third of four recommendations is to refocus the U.S. Employment Service. The U.S. Employment Service is the nationwide public network of placement and employment services established pursuant to the 1933 Wagner-Peyser Act. Financed out of Federal unemployment taxes paid by employers over the years, its mission to assist the unemployed in finding work has been blurred, as ES has been given additional responsibilities, but no additional funding. ES has often been unable or unwilling to assist displaced workers and I believe that we could go a long way by refocusing the employment services and perhaps getting the PICS more directly involved in their activities and affairs. Certainly, the Employment Service image in the employer community currently is less than desirable.

Fourth, the unemployment insurance trust fund approach. A UI approach is built around modifying the Federal laws that govern the use of UI trust funds to permit State use of these funds for retraining purposes. Under such a proposal, individual States would determine if they wished to use trust funds for training purposes and under what circumstances. The States can set up their own financing arrangements for training, linked with the receipt of unemployment insurance, as long as it is not tied to the experience-rated system.

In the interest of brevity, I have provided something I am sure that will be of interest to you, Congressman, as you consider these options. I have worked with the AFL–CIO at the national level, the UAW at the national level, the U.S. Chamber of Commerce, the National Association of Manufacturers, and the National Institute for Work and Learning, as well as the National Commission for Employment Policy in reviewing these options and they have assisted me through the committee process which Governor du Pont chaired to provide you with pros and cons of these various approaches which I think might be of some benefit to you.

Second, and very briefly, I would like to report on my address yesterday to the White House Conference on Productivity, in which I related the experience of what was referred to as a computer teleconferencing process between approximately 175 individuals nationwide in business, labor, and government. Their recommendations are based on the consolidation of all of those remarks through a computer teleconference led by the productivity center in Houston, which revealed seven areas of potential action, some of which will be consistent with my previous remarks.

First, labor market information on jobs and available manpower needs to be significantly improved in each locality. And I think that the Congress should seriously consider a national computer network among the States to assist in the development of a national job bank. This would be not very costly and would be certainly very helpful for those of us who are transitioning workers from one region of the Nation to another.

Second, private industry councils provided for in the Job Training Partnership Act of 1982 need to be made operational and more effective quickly. There is some evidence nationwide that the PICS are off to a slow start and I believe that added impetus could be given to that process with the help of additional support, financial support, from Federal sources in the future.

Third, it would be desirable, in my view, to use in some measure, the unemployment insurance trust fund to assist training and retraining, particularly for individuals who have little prospect of returning to their old jobs. The States of California and Delaware have pioneered in this area in ways that should be examined by other States.

Fourth, there are activities in California and in the Canadian system which might be extended to other States in advance of plant closures. Labor and management in the plant where organizations exist in cooperation with State agencies seek to out place the individuals and to provide appropriate training and counseling prior to displacement.

I think that is a key element in this whole process, that we should be pursuing a policy of prevention rather than a policy of cure. And I would like to refer to Governor du Pont's comment that we are engaged currently in a process where we are spending billions for income maintenance and pennies for training and retraining activities.

Between 1976 and 1981, for example, the Federal Government expended $18 billion in extending unemployment beyond the normal compensable period. Of that total, $53 million, or one-half of 1 percent of that total, was invested in job search and retraining assistance, hardly a wise human capital strategy.

Fifth, in some areas, such as engineering, where critical shortages are likely, if the country is to have significant economic growth, employment needs must be identified and appropriate private and public measures developed for each.

Sixth, under existing collective bargaining agreements, there have been some encouraging developments with joint training funds beyond the traditional area of apprenticeship programs. The Ford Motor Co., the United Auto Workers, have developed a joint trustee program to design training programs for both employees who will remain in the automobile industry and those who will be compelled to seek the employment elsewhere as a result of dislocation.

And seventh, and my final remark, title III of the Job Training Partnership Act is devoted to displaced workers. The Labor Department should be encouraged to develop its programs in these areas with more cooperation of labor and management and appropriate community organizations.

With that, I would like to thank you very much, Congressman, for your attention to this very critical need in our society. Thank you.

[The prepared statement of Mr. Carey follows:]

PREPARED STATEMENT OF HON. DENNIS C. CAREY

DISLOCATION IN THE U.S. ECONOMY

OPTIONS FOR CONGRESSIONAL CONSIDERATION

NATURE OF THE PROBLEM

Not surprisingly, there is little agreement on either the magnitude or economic importance of the displaced worker problem. Debate centers on whether or not displaced workers encounter unacceptable difficulties in finding new work, and therefore whether public policy should be structured to assist these workers.

Opponents of government intervention contend that worker dislocation is a temporary problem that will be alleviated as economic recovery takes hold, providing new job opportunities for displaced workers. Proponents of federal adjustment assistance argue that displaced workers lack the skills needed to move readily to another job and therefore face extraordinary reemployment difficulties that are costly not only to the workers personally, but to the whole of the U.S. economy as well. I would argue for action.

In the current era of fierce international economic competition and rapid technological progress, profound and irreversible structural shifts in the U.S. economy have become widespread and indeed inevitable. As a result, unprecedented numbers of American workers are now experiencing difficulty in the labor market.

Over 26.5 million people were unemployed for some part of 1982, up from 22.4 million in 1981 and 19.2 million in 1978. When workers compelled to accept part-time jobs or sub-minimum wages are also considered, the Bureau of Labor Statistics estimates that nearly a third of all American workers are experiencing employment problems.

Some of these workers were only temporarily unemployed while changing jobs, of course; others are being recalled to their old jobs as the economy continues to expand. Although no precise estimates exist on the number of dislocated workers, CBO has reported that depending on the definition, there were between 840,000 and 2.2. million dislocated workers in January 1983.

The irrevocable loss of over 300,000 jobs in the auto and steel industries is but a highly visible indicator of widespread structural changes that will affect many other industries and millions of additional workers in the years ahead. Peter Drucker predicts that in this decade and the next, another 10-15 million manufacturing workers and at least as many service workers will be displaced as a result of automation, plant relocations, and domestic and international economic competition. Even if Drucker's vision of the future is only half correct, such massive worker displacement represents a major structural transformation of American employment.

As increasing numbers of manufacturing workers lose their jobs to robots and foreign workers, the issue of worker displacement has become both highly volatile and politically sensitive. Yet despite the mounting personal, economic and political stakes involved, institutions in neither the public not private sectors are adequately prepared to assist displaced workers in finding new work.

Today, the need for displaced worker adjustment assistance is massive. But the programs available to meet this need remain narrowly focused, fragmented among 22 grant-in-aid programs that reach only a small portion of displaced workers. Moreover, those programs designed to assist unemployed workers generally--the Employment Service or Unemployment Insurance system, for example--have not been effective in helping the displaced to find new work.

Most displaced workers have job experiences, habits and skills that can be redeployed--but only in another place or in another type of job. Although most of these workers will continue to need jobs, they will be unable to find them until they get reliable information about job vacancies,(which could be advanced through a national computerized job bank system), retrain or relocate.

POSSIBLE SOLUTIONS

While thoughtful, well harmonized fiscal, trade, and monetary policies are a necessary long-term condition for addressing the challenge of the Nations' displaced workers, such actions in themselves are not a sufficient condition. Other actions are required.

There are several possible approaches that can be taken to directly address the displaced worker issure. While a number of variations on each of these concepts have been proposed, the following are the basic concepts now under consideration.

I. General Revenue Approach -- Title III of the new Job Training Partnership Act is the latest of several Federally financed displaced worker programs and is currently funded at 240 million for FY'84. Title III will likely become the primary vehicle used by the Administration if alternatives are not created, since it was created with the President's support, offers flexibility in its operation, and would require some matching from the state goverments. However, if unemployment continues at double digit levels, this Title could become a target for multi-billion dollar levels of funding. Also, there is the potential for increasing the pool of available revenues by targeting funds via the Vocational Education reauthorization process which is now under consideration by the Congress and the Administration.

With the use of Title III funds, Delaware has recently completed a pilot program to assist dislocated workers. 80% of the program's completers were placed during a five (5) month period - and services were provided concurrent with receipt of collection of unemployment benefits. The best test for the success of this program is to ask the participants. Interviewed recently by the local press an ex-factory employee who used to measure, color, and soften leather used in hand bags, shoes and belts for the Seton plant, which closed as a result of foreign competition is now working in the Hercules Company mailroom. She said," I believe that if it weren't for the Program, I wouldn't have gotten this job. I would have never thought to come here, I thought I couldn't do it, and now I can." Another participant worked at Atlantic Aviation Corporation assembling and installing aircraft interiors until he was laid off permanently in November 1982. Through the program's job development, training, and counselling services, he is now working as a Lab Technician in quality control at Ethyl Corp's plastic plant in Delaware City. He said " the program helped me put my skills in perspective so I could relate it in an interview and sell myself to the company". His wife Diane said "that program taught him he had more talent than he thought".

Many of these people needed counselling and job development more than retraining to secure new employment, as only approximately 25% needed retraining.

II. The Individual Training Account Concept-- At its core, the ITA approach would involve setting up a new displaced worker fund based on contributions from both employers and employees. The ITA could only be used for retraining and possibly relocation of displaced workers. Upon the worker's retirement, the unused portions of the individual's ITA would be returned to both employers and employees. This concept could be built into the existing unemployment insurance tax structure and could be modified to include general revenue contributions.

III. Refocus the U.S. Employment Service - The U.S. Employment Service (ES) is the nationwide public network of placement and employment services, established pursuant to the 1933 Wagner-Peyser Act. Financed out of federal unemployment taxes paid by employers, over the years its mission to assist the unemployed in finding work has been blurred as E.S. has been given additional responsibilities but no additional funding. E.S. has often been unable or unwilling to offer displaced workers the placement and referral services for which employers are taxed. E.S. could be restored to its original mission so that adequate resources may be devoted to services for job losers.

IV. The Unemployment Insurance Fund Approach -- A U.I. approach is built around modifying the federal laws that govern the use of the U.I Trust Funds to permit state use of these funds for retraining purposes. Under such a proposal, individual states would determine if they wished to use trust funds for training purposes and under what circumstances. States can set up their own financing arrangements for training, linked with receipt of U.I,, as long as it is not tied to the experience rated system.

Pros and Cons of the Various Approaches

Each of the possible approaches has positive and negative features. They are as follows:

The General Revenue Approach -- The principal advantage of the general revenue approach is that the legal mechanisms now exist in two principal forms -- the adjustment assistance provisions in the Trade Act of 1974 and Title III (the displaced worker title) of the Job Training Partnership Act of 1982. Thus, with the provision of funds, programs could be initiated as soon as funds were made available.

The principal disadvantages of general revenue programs are the potential for high administrative costs and the usual political problems always associated with programs when demands for funds exceed resources, i.e., should there be age and income criteria, should only those individuals displaced in certain industries be favored, or should all displaced workers be eligible, and how should funds be allocated between geographic areas. Also given the current budget circumstances, increasing federal funding for displaced worker programs may be difficult -- particularly if there is a prospect that once started, such programs may become a recurring funding requirement.

The Individual Training Account Approach -- A number of variations have been proposed in the structure and administration of the ITA concept. However, in each of these variations the common positive features include: (a) the sharing of contributions from both business and workers, (b) the flexibility in individual choice permitted by a G.I. Bill type voucher-based approach, (c) the built-in incentives for all concerned to make prudent use of the funds, (d) caps on matching requirements and (e) the prospect that the contributions may be returned to both employer and employee if unused.

The principal disdvantages are: (a) it is a longer term approach and thus, even if created, a bridging mechanism would be necessary in 1983 or 1984; (b) it will require annual contributions from employers and employees until the funds are built up; and (c) there may be political difficulties in creating a new system since many of the parties would prefer to shift the costs to others and (d) as a new payroll tax, it would draw large sums of money out of the economy, and increase labor costs.

Refocus the Employment Service -- The major advantage of refocusing the Employment Service to displaced workers is that the E.S. system is in place and services for the unemployed are its basic mission. Retargeting E.S. would improve services to individuals who need it, and reduce unemployment costs to employers as claimants return to work more rapidly. Displaced workers already are interacting with the E.S. system through receipt of unemployment insurance benefits.

The chief disadvantages are lack of employer confidence in the Employment Service and the problem of providing alternative funding for its non-labor exhange functions.

The Unemployment Insurance Approach -- The principal advantages of the U.I. System approach are: (a) the revenue-generating system exists, thus generating the funds would be a matter of increasing the unemployment tax or diverting existing revenues (perhaps allowing employees to use funds from their extended benefit entitlement for financing training vouchers prior to exhaustion of regular unemployment insurance benefits); (b) an administrative structure exists; and (c) the choice of participation in such an approach would be left to the states and their leadership.

There are three basic disadvantages to this approach. The first is financial. Specifically, the state trust funds are now in great financial difficulty. Today, 21 states have depleted trust funds and are borrowing from the federal trust fund (see Table 2 for the status of these state funds as of November 30, 1982). Moreover, the Federal Unemployment Trust Fund which provides administrative funds to run state programs, extended benefits, and loans to the state trust funds, is also in a deficit position. The addition of new financing requirements on these systems would result either in additional payroll taxes, additional federal contributions or some combination.

Second, both the state and federal unemployment trust funds were set up to provide unemployment compensation. Ratings, assessments, and payback arrangements of the existing system would have to be changed if an efficient and equitable approach were to be created. If the state unemployment trust funds were used, then the incidence of the tax would fall principally on firms in those states with high unemployment and, thus, who are least able to pay. Moreover, it will be these same firms who will be forced to increase payroll taxes just to meet the existing unemployment benefit requisites. Also, the beneficiaries of this training would likely be in another occupation, in effect, creating a training transfer payment.

If the federal trust funds were used, another set of burdens would be created. Since FUTA funds are collected nationally on a flat tax basis, the burden would be heaviest on firms least able to pay, that is, firms that are doing poorly. Moreover, the costs would be borne by all firms in the U.S., since FUTA is a national tax.

Third, use of this approach and altering the two basic U.I. systems is unpopular. Legislation at either the federal or state level would be difficult to pass. A diverse array of groups would be likely to oppose tampering with the U.I. system.

Fourth, the cost would be borne solely by employers. Employers acknowledge their responsibility for funding weekly cash benefits for laid off employees, but the costs of retraining are unpredictable business expenses, and equity demands that such costs be shared.

SUMMARY

In the meantime, all states should review the opportunities available under existing federal and state unemployment insurance laws under which persons drawing unemployment benefits can enroll in approved training without losing their benefits. When displaced workers would otherwise exhaust benefits without becoming re-employed, unemployment insurance costs may be reduced at the same time that workers are helped to adjust to economic change under careful administrative arrangements.

Representative LUNGREN. Thank you very much for that testimony, Mr. Carey. It raises a lot of different perspectives on this issue and I hope during the questioning and answer period we might go back to them.

Our second witness is Mr. G. William Dudley, Jr., who directs the State of South Carolina's Board for Technical and Comprehensive Education.

I want to make sure I get that correct. Thank you for being with us, Mr. Dudley, and you may proceed as you wish.

STATEMENT OF G. WILLIAM DUDLEY, JR., EXECUTIVE DIRECTOR, BOARD OF TECHNICAL AND COMPREHENSIVE EDUCATION, STATE OF SOUTH CAROLINA

Mr. DUDLEY. Thank you, Congressman. Congressman Lungren, staff, and other guests, thank you for your interest in retraining structurally unemployed Americans. We in South Carolina appreciate this opportunity to contribute our expertise and learn more about other training programs throughout America.

I believe that there are three keys in helping the structurally unemployed American. The keys I am talking about here are flexibility, cooperation, and creativity. And here is how flexibility, cooperation, and creativity have helped in South Carolina.

Twenty-two years ago, South Carolina's technical education system was a vision in the minds of Senator Fritz Hollings and a few other prominent State officials. TEC was a plan to enrich our tax base, to help create jobs and train people for those jobs—basically, it was a system of special schools, tailor-made training programs, and a network of some technical education colleges or centers.

Today, we are a system of 16, 2-year colleges enrolling more than 160,000 people annually in all programs. Our special schools alone have trained approximately 80,000 people for over 700 industries since 1961. We also in the 1980's need to look at the concept of expanding that special schools program because up until now, it has dealt only with increasing manufacturing-type jobs. But I think we will agree in the 1980's and 1990's, that certainly there will be less in manufacturing, more in service and information type of industries, as well as tourism, which is a big part of the South Carolina economy.

We have trained for textiles, agriculture, metalworking, chemicals, paper, and electronics. We have studied, planned and grown beyond all dreams of success of the 1960's. Today, one-third of all South Carolina high school graduates who enroll in higher education are enrolled in 2-year colleges.

This fall, in the Nation, for the first time in our history, an estimated 60 percent of all freshmen and sophomores are enrolled in 2-year colleges; 40 percent of all in higher education are in 2-year colleges. Young people and older workers who need retraining sense the shift in our economy and in our society.

In South Carolina, this economic shift will mean a decrease in manufacturing jobs and an increase in service industries. In many industries, we see a widening gap between technical levels. More high technology and low technology jobs are being created, while many middle jobs are being eliminated.

Our 2-year colleges have a curriculum evaluation program designed to phase out training for skills no longer in demand, while developing programs in emerging technologies.

One of our larger colleges, Midlands Tec in Columbia, S.C., is phasing out programs in horticulture, carpentry, welding, heavy equipment operation, and insurance and real estate management because their graduates are not being hired. I believe this kind of flexibility is one key to retraining structurally unemployed workers across America. We must be ready to offer specific training in specific technologies within a matter of days—not weeks or months.

Very recently, an industry relocated in South Carolina and within 4 days, a special school was in operation. This is a tailormade program designed specifically for an industry for startup type of training.

This kind of rapid-start, industrial training has attracted industry into South Carolina for years. Now this kind of rapid start must apply to technical schools, colleges, and Federal retraining programs.

We, in South Carolina, became concerned about technological change and structural unemployment 5 years ago. To our knowledge, we were the first State in the Nation to develop a statewide plan for high technology training.

In 1978, we launched our "Design for the 1980's" program. "Design for the 1980's" resulted from many conferences with officials at IBM, Digital Equipment Corp., Cincinnati Milacron, GE, Westinghouse, and other leading companies, 20 companies in all. What we learned about technological change led us to establish six resource centers specializing in different aspects of high technology training. Centers located at existing technical colleges serve as information banks in computers, advanced machining techniques, advanced office occupations, robotics, microelectronics, and water quality.

TEC's resource centers offer special workshops for TEC faculty and staff, as well as professional development for area businesses and industry.

I think we all agree, in 2-year colleges or any type of training program, two ingredients are necessary—No. 1, the faculty or the instruction must be on the cutting edge, and No. 2, the equipment must be state-of-the-art.

Next spring, four upstate technical colleges will hold high technology training sessions in conjunction with automated manufacturing 1984 at Textile Hall in Greenville. This exhibit of state-of-the-art equipment is expected to attract participants from a six-State area. We are proud to offer special seminars for this event.

Last December, we started our fleet of mobile training units to take sophisticated equipment from TEC's resource centers into the rural areas of South Carolina. We now have two mobile units equipped with automated lathes, milling machines, and computer-controlled, tape preparation systems. We await the arrival of a third unit in October.

TEC's "Design for the 1980's" program has purchased state-of-the-art equipment and in some cases, has had it donated or consigned by specific industries.

As prices of this equipment rise, technical colleges will not be able to purchase as much of this equipment as we will need access to for training. We are looking at alternative means of getting this equipment.

Mobile units and miniunits are going to be one of the aspects that we utilize in taking this equipment around, because in our business, a piece of highly specialized equipment is not needed in one locale for 24 hours a day, 7 days a week, 12 months out of the year. Also, another very interesting event that is being a pilot project is in Charleston, S.C. A local industrialist is working with other industrialists at the present to see about letting TEC students utilize some of their specialized proprietary, sophisticated equipment after hours, either in the evening area or in the weekend area, so that we might have access to this equipment for training purposes.

Last year, the TEC system, Piedmont Technical College in Greenwood, and CETA, cooperated to develop a pilot retraining program for employees in the Upper Savannah region who had been displaced by changing technology. Many of these adults had worked at the same jobs for 20 years or longer. Many had no high school diplomas or special skills beyond those acquired on the job.

The pilot adult retraining program TEC began with community meetings in six South Carolina counties. Anyone out of work for at least 6 months without the prospect of being called back was eligible for the retraining program. The program began with personal and career counseling, including practice in interview techniques and skills assessment.

Congressman, we felt that the assessment of these individuals was probably the greatest one thing that we could do for them as far as the retraining program.

Not only did some have the lack of educational skills. They needed to go back for remedial work. Some did not have skills that were adequate for the sophisticated jobs that were coming available. But more importantly, when some of these people have had the same jobs, the same industry, for 10 to 20 years, there were tremendous psychological problems that had developed. Some did not know where to go for help and others simply did not know what to do.

Up to 1 year of free career training is available to these people through Piedmont Technical College. Similar programs are going through CETA and JTPA at six other technical colleges.

We expect to retrain approximately 1,100 workers in our current CETA JTPA programs. And we are proud of that. The Job Training Partnership Act is an excellent program and South Carolina is very grateful for it. However, I do not believe that JTPA will solve the problems of our structurally unemployed. In many cases, we need more than the 13 weeks of basic skills training allowed through JTPA to prepare unemployed workers for jobs in more sophisticated industries. Many displaced workers are functionally illiterate. We need more time and more money to help them develop basic skills.

I think we find more and more are deficient in the six R's—remedial reading, remedial writing, and remedial arithmetic.

I would be the first to remind Congress that dollars alone will not stop the suffering of our unemployed workers. We need to create additional jobs. I encourage everyone interested in solving this problem to focus attention upon the development of low tech as well as high tech skills. I also encourage the Congress to offer incentives to industry to help displaced employees retrain for different careers. Industries laying off workers in South Carolina have cooperated fully with the efforts of 2-year colleges to provide retraining and placement for displaced workers. Cooperation is the second key to solving structural unemployment.

I agree with Mr. Carey from Delaware that the conversion probably is very important. But if it is a foregone conclusion that that industry is going to close, then the conversion of that operation into something that is going to be productive in the 1980's is highly necessary.

In South Carolina, we formed a team of about five different State agencies—the employment security commission, the TEC system, the State development board, the Governor's Office, and the federally funded programs—to go into a situation if we have advance warning to try to work out some type of situation to aid in the displacement of those workers, either through additional educational programs, either through additional skills, so that they are not terminated without some type of future employment.

We also go in after the plant is closed, if we do not get prior acknowledgement of the plant, and do the same type of situation. It has worked extremely well.

We, in South Carolina, realize that no single agency can solve the problem alone.

Just as sophisticated manufacturing now requires integrated systems—all times for greater productivity—retraining is a sophisticated issue now requiring a cooperative effort for success. Retraining requires an integrated system of community support.

In recent months, a task force of TEC presidents, the State development board, the employment security commission, the State department of education, and the Governor's office have explored ways to tackle the retraining problem in South Carolina.

We do not have all the answers, but at least we are talking with and listening to one another, instead of striking out in 50 different directions. I might add that getting a handle on the retraining problem is like grabbing a bar of soap in the Atlantic Ocean. But I have faith that there is enough innovation in the State TEC system, enough innovation in the State of South Carolina, to make job retraining ultimately available to any South Carolinian who wants it.

In my own opinion, I think the Nation needs something very similar to—or maybe not exactly similar—but in the same aspect of what the West Germans have, where an individual who finds him or herself in a dead-end job or one that is boring or dull can go back to a training program, technical institute, college, or whatever it might be, and be trained at something like three-quarters of his or her salary, current salary, to learn a new job skill that will be needed in the future.

I am not saying that we need one in the United States where a person is paid to participate. But certainly, it may be where industries, the Government, State and Federal, and maybe the individual pays a portion—we could have this type of program because I think it is pertinent and relevant in the future as many job retraining events—one individual is going to have in his lifetime, we need some type of national job retraining program.

Retraining may not always create new jobs in manufacturing, but it may save many existing jobs. In saving them, retraining may lay the base for more growth in service industries.

I think a good example of what I am referring to, in South Carolina, this past spring, a plant closed, of which we lost some 400 jobs. This past summer, special schools were started to help that new industry locate, of which some 250 jobs of a more sophisticated type of industry was located.

We also in the present are helping to refurbish a papermaking plant, of which some 1,600 jobs used to be in that particular industry, and now some 800 jobs will be in the new type of operation.

This is not going to be an exception. I think this is going to be a rule for all States in the future.

The third key in helping structurally unemployed Americans is creativity.

For example, one of our colleges has started a technical scholarship program in close cooperation with local industry. This is not your typical cooperative ed program that most of you are familiar with in the college structure. The industry hires a student, pays for the student's books, tuition and insurance, while paying him for the time he works in the industry. Usually, this is in the afternoon, at night, or in the summertime. The student is guaranteed a job upon graduation. If he refuses this job or if he fails to work 2 years for the company, he reimburses the industry for the cost of his education. The program has been highly successful. We expect to duplicate this statewide.

Two other examples of our creativity are evident in two new college programs created specifically for certain industries. We have begun a 2-year program in nuclear service technology specifically for Westinghouse in Spartanburg. To our knowledge, this is the first time a 2-year curriculum has been designed for a particular industry, for their own individual participation.

We have also started a 2-year degree in automated manufacturing. This degree will be offered at Piedmont Technical College, the site of our robotics resource center.

This type of innovation in education will help save us from obsolescence. Creativity, cooperation, and flexibility will help solve problems of the structurally unemployed.

Ladies and gentlemen, thank you for your attention to this nationwide issue. We, in South Carolina, stand ready to help and also support your research.

Thank you, sir.

Representative LUNGREN. Thank you, Mr. Dudley. We appreciate that and I hope during the question and answer period, we will be able to get back to some of the specifics that you mentioned.

Our next witness is Mr. Kaye R. Kiddoo, the director of the Employment Development Department for the State of California.

STATEMENT OF K. R. KIDDOO, DIRECTOR, EMPLOYMENT DEVELOPMENT DEPARTMENT FOR THE STATE OF CALIFORNIA

Mr. KIDDOO. Thank you, Congressman. I am a new boy on the street as far as the Employment Development Department is concerned. My career has been in the private sector—namely, with Lockheed Corp.

I welcome the opportunity to be here with you today to talk about structural unemployment.

We have had our problems in California. Of course, the biggest problem we have had is to find job vacancies, and that is the crux of the whole thing—economic development.

We have had some guidelines in California that we have followed rather rigorously. But the greatest of these is to ensure that whatever training we provide is directed toward demand occupations and supports our total plan for economic development.

We have had a new pattern that has developed out in California and, of course, that is the plant closures. In the last 3½ years, we have had some 1,465 plant closures. This has affected over 148,000 employees. The pace of closures is dampening, but it still exists. It is still a big problem.

There are a lot of problems associated with a large-scale layoff. You suddenly flood a labor market, like South Gate, Fremont, Milpitas, areas like that, with a number of workers who have similar occupational skills. They flood the market. And then you get a community effect.

Normally, in the smaller areas, it is almost a disaster. Even when we are talking about small numbers like in Weed, in far northern California, where International Paper closed its mill up there, it was 400 workers, but the town was only 3,000 people—excuse me—the county was only 3,000 people, and it had a disastrous effect.

We have had plant closures affecting our heavy manufacturing—namely, in the automobile, tire and rubber, and steel industries. Also, it has affected fruit and vegetable canneries, fish canneries, and in the northern part of the State, lumber.

We are trying to create new jobs and new jobs are being created in the service and knowledge and technology-based industries, such as in your own Orange County and in Santa Clara County. But they have not developed rapidly enough to absorb the number of workers who have been made available.

Well, we, too, have had a partnership. We created what we call the California Economic Adjustment Team. This is made up of directors such as myself from EDD and from the departments of economic and business development, industrial relations and education, our office of planning and research, and the chancellor's office of the California Community colleges.

We have also had special assistance from agencies such as business and transportation and health and welfare. Basically, our plan has been rather simple. It has been to help local communities plan and implement effective responses, and I certainly applaud and echo the comments that if you can get in early, such as we did with Ford at Milpitas, you can do a whale of a lot more than you can if you get in late, such as we did at South Gate.

The other thing we do is try and help them, the community, to determine their future economic and employment trends. In Weed, we recommend a consulting firm which came in and kind of did a market research for the community. And then we recommend to the community, and the community includes the firm itself, of course, what procedures it can follow to minimize the hurt of a plant closure and how it can go about promoting reemployment of workers and revitalizing the economy of the local area.

We have developed some guidelines and I brought a copy of them here. They are rather extensive. But these are the kinds of guidelines that we present to local communities or to local organizations who feel that they have a need for further information and want to do a better job of planning for plant closures.

I should also commend our State chamber of commerce and the California Manufacturers Association, both of which have put out booklets which describe the effects of plant closures and how to avoid them, if possible. But, if they do come, what can be done?

We have found that there are some fundamentals about plant closures and the training we provide to those who have been displaced. The best type of training, of course, is onsite. We like apprenticeship training, wherever that is practical and feasible. We try and build on present and future industrial business development and then we try and build on the workers skills for transference to new jobs.

Again, as I mentioned earlier, all through this we try to emphasize economic development. Are these really long-term jobs? Are these jobs that have a future?

We have known for a long time that training is very important in reducing welfare rolls and moving disadvantaged people into the economic mainstream. But a healthy economy, achieved through concerted employment and training efforts, will provide jobs that provide opportunities for all.

We have combined, as I mentioned, our efforts with the State department of industrial relations, and we have also had a good mix of labor and business assisting us. We have developed careful strategies in each instance. Some of these go as follows:

The employer, we consider, is the one who is in the best spot to determine what kinds of training should be supplied. The system should respond to the hiring and training needs of the industry, rather than the schedules and curriculums of the school. Trainers must know about upcoming needs, and as soon as possible. There must be flexibility, and I think both Mr. Carey and Mr. Dudley stressed flexibility. But flexibility at both the State and local levels. There must be a partnership. There has to be a partnership between the private and the public sectors, and I think we have gone a long way to achieve that in California.

Training has to be a system. In other words, it has to involve your secondary or postsecondary educational establishments. It has to affect your technical training and so on.

Employers—and employee organizations, such as unions—must work together to identify existing skills, determine training needs and place the workers in new occupations. Workers must be placed in skills necessary for job success. Again, these have to be career jobs. Incidentally, we believe in modular training if the unemployed worker has *x* amount of abilities—we just want to supply that additional amount and not go through the rigmarole of the whole career.

Then, we must build on current education and training delivery systems, rather than duplicate current resources. The community colleges in California are playing a great role in this regard.

Before I make specific recommendations, I would like to talk about just three programs, and there are many more, that we have in California in which you might be interested. One of these is called the California Work Site Education and Training Act, or CWETA. It has pioneered a new program. It has some pretty strict standards. In other words, the trainees have to work hard. We expect them to get ahead. And we consider the needs of business first.

We are presently training 11,000 people in medicine, electronics, machine trades, high technology, and agricultural skills. The State has funded this program and we have achieved a 90-percent placement rate of graduates by sticking to one basic rule, and this is important. Employers must agree to hire or upgrade those who successfully complete the training.

In exchange for this commitment, business plays a key role in developing each project, selecting the trainees, designing the curriculum, and providing the required on-the-job training. It is a flexible program, and I would like to stress that. The projects are developed and administered locally by whoever can do the job best. If a community college cannot do it, if they cannot do it cheaply enough, then we give it to somebody else. We have that flexibility.

We presently have about 166 CWETA programs, each having been designed to meet the needs of the employer, the school, and the trainees. During the last fiscal year, for example, industry contributed $2 million of their own money to help this program. This was matched by the State putting in $10 million. The year before it was $25 million. Obviously, this program saved the State and saved the Federal Government millions of dollars by keeping people off of the welfare rolls.

Well, what accomplishments have we had? Nearly half of our training is in electronics and high tech fields; 14 percent has been in health care; 22 percent in skilled crafts, such as machining; 8 percent in other machining trades. And the balance has been in agriculture skills and other fields. Approximately two-thirds of those who have been trained are upgraded from dead-end jobs with no career ladder. The remaining one-third have been entry-level jobs. One-third of the CWETA trainees are economically disadvantaged; 76 percent had inadequate or obsolete job skills; 49 percent are nonwhite; 37 percent are women.

I think it has been a whale of a good program and it is one that we are very, very proud of. I think the acceptance of the program has been great.

Another innovative program that we have in California is called the employment training panel. This is a new program. Essentially, we are in the second year. This is a program of $55 million, which is, again, State paid by a special tax on employers of one-tenth of 1 percent of the wages they pay to their employees. This generates some $55 million a year. We have a separate seven-member panel that administers the program. It is aimed primarily at those folks who are on unemployment insurance or whose unemployment insurance has been exhausted, or they are in a situation where it appears likely that they are going to be displaced. The idea, of course, is to reduce the amount of money that we are spending on unemployment insurance. And hopefully, we will succeed in that.

This is kind of a tough program. It is built on the CWETA principle. You get in there and you work hard. It is based upon employers' needs, with employers designing the training. In many cases, they are conducting the training. They do work directly with the people. If the people do not perform, then they are out.

Another program that you might be interested in is quite innovative. We have set up around the State five business-labor councils. These are combinations, really, of industrial or business leaders and union leaders, and then we involve the community colleges and the department of education.

Basically, what we are trying to do is focus on vocational education and in each area, such as Los Angeles, to exact a greater degree of cooperation between the parties in recognizing there is a training problem and to do what they can to adjust curriculums, and adjust business to attack or target that problem best.

There is lot of talk about plant closures. We have had a lot of experience with it. I will just touch on a couple of the areas because of the problem's magnitude. One of the biggest, of course, involved General Motors, which has closed down two large assembly plants, with a third one in doubt. But the two large ones, one was at South Gate, and one was at Fremont.

We have formed a tripartite agreement which is very interesting. It consists of General Motors, the United Auto Workers, and the State of California. Let me put it this way, General Motors and the UAW put up over $7 million to effect counseling, retraining, stress counseling, financial counseling, and so on, to assist the workers who had been laid off.

The program has been quite successful, I think, though not quite as successful as one that was later set up following the Milpitas closure. There, thanks to the Ford Motor Co., the displaced workers came in early, both to us and to the UAW. So we had a good chance to go into the plant to do counseling and retraining, and that is where we are now. This has been an enormously successful program.

I mentioned the retraining we did up in Weed, and, of course, that is a rural situation. It was entirely different and yet, it too proved successful because we brought all the elements, all of the people, all of the parties, together and worked together. We have had other closures, as you know, with the Kaiser steel mill at Fontana, the General Electric appliance plant in Los Angeles, the Piper airplane plant at Santa Maria, and so on.

I guess there are a couple of other programs that you might be interested in. We have done a lot of what we call work sharing in California and this has been tremendously successful. Basically, what we do is when employers have to cut back, instead of laying off people, they go on a shortened workweek and we make up the balance, say 20 percent, in pro-rated unemployment insurance benefits. We had a limit of 20 weeks on that previously. We have since extended that to 6 months.

This has been a darn good program, particularly when you have an industry that feels that they are just in a dip and they are going to be coming back out. Or another way that it can be used is if they sense that they are not going to come back, it gives them a transition period to get their people retrained. It gives them an opportunity to get out and find other jobs.

Here are some recommendations:

We believe that the Government has a definite role in training and that they should assist the private sector in providing specialized training. This can be done through work site training programs which we think are best. It can be done through tax incentives.

I will have to echo the other two speakers. I think both said that we need, and we need badly, better, more comprehensive labor-market information. We have a good program in California and yet, the program, when it gets down to the local level, the occupational-type information, is lacking. We need to do more in that area and it is going to take more dollars.

In the design of national programs, the thing that we would strongly urge, Congressman, is that they not be so structured, so rigid, so categorical, if you please; that there be more flexibility allowed at the State level. Each State has different problems and they need to address those problems differently.

I know it is very easy to pass a law, universal law, that affects the whole country. But it often does not apply quite as well as it should or fit our individual State needs.

We know that there has to be close coordination among public programs. But, for example, you know there are about 22 different Federal programs that have to do with displaced workers. And we have such a grab bag of other Federal programs and State programs, it is hard working them all together to focus our resources and do the best kind of job that we can.

We know that the Vocational Education Act is now appearing before Congress for reauthorization. We certainly urge careful consideration of that act in view of the retraining problems for the displaced workers.

I think that that is about what I would like to present here. I certainly appreciate the opportunity, Congressman, to appear before you and I look forward to the question and answer period.

Thank you.

[The prepared statement of Mr. Kiddoo follows:]

Prepared Statement of K. R. Kiddoo

TRAINING AND ECONOMIC DEVELOPMENT
A PUBLIC/PRIVATE PARTNERSHIP THAT WORKS

I am Kaye Kiddoo, Director of the California Employment Development Department. I also come to you from many years in the private industry sector. I welcome the opportunity to discuss the critical issue of structural unemployment with you today.

We in California had to face a tremendous increase in unemployment during the past several years. We have learned from our experiences and I'd like to share some of these with you today.

Our first effort is to find current job vacancies that can utilize the displaced workers' existing skills.

When current skills don't match current vacancies and retraining is necessary, we try to insure that training is not only directed toward demand occupations, but that it also supports our economic development efforts. The relationship between training and economic development is critical and I will want to keep emphasizing this point throughout my discussion.

CALIFORNIA'S EXPERIENCES

Until comparatively recently, when plant closures or mass layoffs occurred in California, the impact was generally of limited severity. The layoffs were localized and the number of workers affected tended to be relatively small. Workers could usually be absorbed into

SIMILAR JOBS IN THEIR HOME COMMUNITIES. THEN A NEW PATTERN EMERGED IN WHICH CLOSURES OCCURED WITH INCREASING FREQUENCY. SEGMENTS OF ENTIRE INDUSTRIES WERE AFFECTED. CERTAIN GEOGRAPHIC AREAS WERE PARTICULARLY HARD HIT. THE NUMBER OF JOBS LOST WAS SIGNIFICANTLY GREATER THAN IN PREVIOUS YEARS.

DURING THE PAST FOUR YEARS, CALIFORNIA EXPERIENCED NUMEROUS INDUSTRIAL CLOSURES, RELOCATIONS, AND MASS LAYOFFS. IN THE 3 1/2 YEARS FROM JANUARY 1980 THROUGH JULY 1983, OVER 1,465 CALIFORNIA PLANTS CLOSED RESULTING IN A LOSS OF OVER 148,000 JOBS. THE RATE OF CLOSINGS AND NUMBERS OF WORKERS AFFECTED IS BEING REDUCED, BUT IT IS STILL TOO HIGH.

WORKERS DISPLACED DUE TO PLANT CLOSURES OR MASS LAYOFFS TYPICALLY EXPERIENCE DIFFICULTY FINDING COMPARABLE EMPLOYMENT FOR SEVERAL REASONS. FIRST, SIGNIFICANT NUMBERS OF WORKERS WITH SIMILAR OCCUPATIONAL SKILLS SUDDENLY FLOOD THE LABOR MARKET. SECOND, PLANTS WHICH CLOSED OFTEN SIGNIFIED A STATEWIDE OR REGIONAL DOWNTURN OF A PARTICULAR INDUSTRY, THEREBY ELIMINATING, OR AT LEAST REDUCING, THE AVAILABILITY OF COMPARABLE JOBS. FINALLY, WORKERS ARE RELUCTANT TO RELOCATE, BELIEVING THAT IT WOULD NOT BENEFIT THEM SUFFICIENTLY.

INDUSTRIAL SHIFTS IN CALIFORNIA'S ECONOMY HAVE, FOR EXAMPLE, REDUCED EMPLOYMENT IN HEAVY MANUFACTURING (ESPECIALLY AUTOMOBILE, TIRE AND RUBBER, AND STEEL PRODUCTS), FOOD CANNERIES, AND THE LUMBER PRODUCTS

INDUSTRIES. MEANWHILE, NEW JOBS ARE BEING CREATED IN THE SERVICE AND KNOWLEDGE AND TECHNOLOGY-BASED INDUSTRIES.- RETRAINING WHICH BUILDS UPON AND TRANSFERS EXISTING OCCUPATIONAL SKILLS, CAN BE VERY EFFECTIVE IN ENABLING DISPLACED WORKERS TO QUALIFY FOR NEW JOBS IN DEMAND OCCUPATIONS AND/OR GROWING INDUSTRIES. CURRENT EMPLOYMENT-BASED MODELS (E.G., WORKSITE TRAINING) HAVE BEEN FOUND TO BE ESPECIALLY EFFECTIVE IN THIS REGARD. IN THE ABSENCE OF AN OPPORTUNITY FOR RETRAINING, WORKERS FROM DECLINING INDUSTRIES OR WITH OBSOLETE SKILLS FACE THE LIKELIHOOD OF LONG-TERM UNEMPLOYMENT. THIS NOT ONLY HAS A NEGATIVE MULTIPLIER EFFECT THROUGHOUT THE ECONOMY, IT INCREASES SOCIAL AND PSYCHOLOGICAL STRESS UPON WORKERS AS WELL.

BECAUSE OF THE MAGNITUDE OF THIS PHENOMENON WITH ITS DEVASTATING EFFECT ON INDIVIDUALS AND COMMUNITIES, THE SITUATION HAD DISTINCT IMPLICATIONS FOR STATE POLICY MAKERS. BY THE FALL OF 1980, VARIOUS STEPS HAD BEEN TAKEN TO ASSESS THE PROBLEM AND DETERMINE POSSIBLE AREAS FOR STATE GOVERNMENT ACTION. THE STATE SENATE'S INDUSTRIAL RELATIONS COMMITTEE HELD A SERIES OF LEGISLATIVE HEARINGS AND THE EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD) PREPARED SEVERAL REPORTS AND RESEARCH STUDIES PROVIDING INFORMATION ON THE NATURE AND EXTENT OF PLANT CLOSURES IN THE STATE. THE DIRECTORS OF EDD, THE DEPARTMENT OF ECONOMIC AND BUSINESS DEVELOPMENT (DEBD), THE DEPARTMENT OF INDUSTRIAL RELATIONS (DIR), THE OFFICE OF PLANNING AND RESEARCH, THE DEPARTMENT OF EDUCATION (SDE) AND THE CHANCELLOR'S OFFICE OF THE CALIFORNIA COMMUNITY COLLEGES (COCCC) HAVE JOINED TOGETHER TO COORDINATE THE STATE'S PLANT CLOSURE EFFORTS. OTHER

DEPARTMENTS, INCLUDING TRANSPORTATION AND FOOD AND AGRICULTURE, BECAME INVOLVED IN SPECIFIC STATE/LOCAL ASSISTANCE EFFORTS. ALSO, THE HEALTH AND WELFARE AGENCY INITIATED COMPLEMENTING PROGRAMS.

THESE ENTITIES, KNOWN COLLECTIVELY AS THE CALIFORNIA ECONOMIC ADJUSTMENT TEAM (CEAT) FULFILL THE MAJOR FUNCTION OF COORDINATION AND COMMUNICATION. THE OVERALL MISSION OF CEAT ENCOMPASSES:

- ASSISTING LOCAL COMMUNITIES IN THE PLANNING AND THE IMPLEMENTATION OF EFFECTIVE RESPONSE ACTIONS.

- ASSESSING FUTURE EMPLOYMENT AND ECONOMIC TRENDS WITHIN THE INDUSTRIAL, COMMERCIAL, AND AGRICULTURAL SECTORS.

- RECOMMENDING APPROACHES AND, WHEN NECESSARY, LEGISLATION TO: (1) MINIMIZE HARMFUL CONSEQUENCES OF PLANT CLOSURES, (2) PROMOTE RAPID REEMPLOYMENT OF WORKERS, AND (3) REVITALIZE THE ECONOMY OF AFFECTED COMMUNITIES.

PLANT CLOSURE PLANNING GUIDELINES

WITH EXISTING RESOURCES, EDD ADMINISTRATIVELY BEGAN SEVERAL SPECIAL PROJECTS TO TEST THE EFFECTIVENESS OF VARIOUS PUBLIC-PRIVATE COLLABORATIVE APPROACHES AND GAVE STATEWIDE PRIORITY TO PROVISION OF REEMPLOYMENT AND RETRAINING SERVICES FOR DISPLACED WORKERS.

The experience gained in the past three years, during which state agencies have, in cooperation with private employers, tested a variety of state-local cooperative approaches, has enabled EDD to identify several factors which help develop and implement efficient and cost-effective displaced worker retraining programs. While there is considerable flexibility in local programming, a set of "guiding principles" has emerged from these experiences. These principles are contained in our publication, "Planning Guidebook for Communities Facing a Plant Closure or Mass Layoff". They include:

o Worksite based and apprenticeship-type training methodologies that use industry sites, equipment and expertise should be used.

o Programs should build on present and future industrial and business development.

o Programs should build upon the existing skills that workers have acquired in their pre-layoff occupations. Skills transference techniques and workshops have been very effectively utilized for this purpose.

TRAINING AND ECONOMIC DEVELOPMENT

One of our most important guiding principles is that employment related training is part of the economic development efforts at both state and national level. Together, we help meet our nation's need for a healthy economy. Training has long been a method for reducing welfare rolls and moving disadvantaged people into the economic mainstream. But a healthy economy, achieved through concerted economic development and training efforts, will provide the jobs that will provide opportunities for all.

In order that job training help facilitate economic development, training resources (Vocational Education, JTPA, etc.) must be directed to meeting the needs of employers for a trained, responsive work force. While some resources should permit young people to prepare for the world of work, principal use of funds should be to train for demand jobs.

The implications of this approach to retraining should be carefully noted. The mix of training with economic development will not happen without carefully designed strategies and the concerted efforts of groups and institutions who traditionally have not had a close working relationship. Our experiences lead us to believe that the following are true:

o The employer should be the primary determiner of the various aspects of the training program.

- THE EDUCATION/TRAINING SYSTEM SHOULD BE RESPONSIVE TO HIRING AND TRAINING NEEDS OF INDUSTRY RATHER THAN THE ESTABLISHED SCHEDULES AND CURRICULUM OF EDUCATIONAL INSTITUTIONS.

- TRAINERS NEED ADVANCE INFORMATION ON UPCOMING TRAINING NEEDS.

- LOCAL COMMUNITIES AND THE STATE MUST HAVE FLEXIBILITY TO DETERMINE PROGRAM MIX BASED ON ECONOMIC CONDITIONS AND CLIENT NEEDS.

- A PUBLIC/PRIVATE PARTNERSHIP IS NEEDED--NEITHER IS ENOUGH WHEN ALONE.

- TRAINING MUST BE SEEN AS A SYSTEM. SECONDARY, POST-SECONDARY, VOCATIONAL AND ADULT EDUCATION MUST ALL WORK TOGETHER.

- BOTH EMPLOYERS AND EMPLOYEE ORGANIZATIONS MUST BE INVOLVED IN IDENTIFYING WORKERS' EXISTING SKILLS, DETERMINING THEIR TRAINING NEEDS, AND PLACING THEM IN NEW OCCUPATIONS.

- WORKERS MUST BE PREPARED IN THE SPECIFIC SKILLS NECESSARY FOR JOB SUCCESS AND THE TRAINING SHOULD BE SUFFICIENTLY MODULAR TO ENABLE INDIVIDUAL WORKERS TO CONCENTRATE ONLY ON THE TRAINING COMPONENTS THEY REQUIRE.

- WE MUST BUILD UPON EXISTING EDUCATION AND TRAINING DELIVERY SYSTEMS, RATHER THAN DUPLICATE CURRENT RETRAINING PROGRAM OR SERVICES.

BEFORE MAKING SOME SPECIFIC RECOMMENDATIONS FOR YOUR CONSIDERATION, I'D LIKE TO BRIEFLY DESCRIBE SOME OF THE EXPERIENCES WE'VE HAD IN CALIFORNIA, HOW WE ARE ATTEMPTING TO APPLY THE LESSONS WE'VE LEARNED AND MAKE USE OF THE PROGRAMMATIC IMPLICATIONS.

WE IN CALIFORNIA HAVE HAD SOME UNIQUE EXPERIENCES. HOWEVER, MOST OF OUR PROBLEMS WERE OF THE "NORMAL" STRUCTURAL VARIETY. SOME OF OUR SOLUTIONS WERE INNOVATIVE BUT MOST WERE BASED UPON TRADITIONAL COMMUNITY SUPPORT NETWORKS.

EMPLOYER DIRECTED TRAINING PROGRAMS

LET'S LOOK FIRST AT THREE PROGRAMS WHICH WERE DESIGNED WITH THE EMPLOYER'S NEEDS IN MIND. THEY HAVE A HEAVY ECONOMIC DEVELOPMENT DIRECTION. LOCAL SCHOOL SYSTEMS ARE AN INTEGRAL COMPONENT BUT ONLY IF THEY CAN BE COMPETITIVE. THERE IS HEAVY USE OF OUTCOME AND PERFORMANCE MEASURES TO DETERMINE EFFECTIVENESS RATHER THAN LOOKING AT THE PROCESS ITSELF.

1. CWETA: A START IN THE RIGHT DIRECTION

FOR FOUR YEARS, THE CALIFORNIA WORKSITE EDUCATION AND TRAINING ACT (CWETA) PROGRAM HAS BEEN THE PIONEER IN A NEW APPROACH TO JOB TRAINING THAT EXPECTS TRAINEES TO WORK HARD, TO GET AHEAD, AND CONSIDERS BUSINESSES' TRAINING NEEDS FIRST.

CWETA HAS SHOWN THAT PLACING PEOPLE IN GOOD JOBS IS NOT ONLY GOOD FOR WORKERS, BUT THAT IT ALSO CONTRIBUTES SUBSTANTIALLY TO THE ECONOMIC DEVELOPMENT OF BUSINESS AND THE STATE.

CWETA IS TRAINING 11,000 PEOPLE IN MEDICINE, ELECTRONICS, MACHINE TRADES, HIGH TECHNOLOGY AND AGRICULTURAL SKILLS. THIS STATE FUNDED PROGRAM HAS ACCOMPLISHED A 90% PLACEMENT RATE OF GRADUATES BY STICKING TO ONE BASIC RULE--EMPLOYERS MUST AGREE TO HIRE OR UPGRADE THOSE WHO SUCCESSFULLY COMPLETE TRAINING.

IN EXCHANGE FOR THAT COMMITMENT, BUSINESS PLAYS A KEY ROLE IN DEVELOPING EACH PROJECT, SELECTING TRAINEES, DESIGNING THE CURRICULUM, AND PROVIDING REQUIRED ON-THE-JOB TRAINING.

UNLIKE MANY OTHER JOB TRAINING PROGRAMS, THIS ONE IS FLEXIBLE. PROJECTS ARE DEVELOPED AND ADMINISTERED LOCALLY, BY WHOMEVER CAN DO THE JOB BEST, WHETHER THAT IS SOMEONE FROM THE COMMUNITY COLLEGE WHICH WILL PROVIDE THE TRAINING OR FROM THE BUSINESS NEEDING THE SKILLED WORKERS.

EACH OF THE 166 CWETA PROJECTS HAS BEEN DESIGNED TO MEET THE UNIQUE NEEDS OF THE EMPLOYER, SCHOOL AND TRAINEES. CURRICULA ARE REWRITTEN, CLASS HOURS AND SITES ARE NEGOTIATED...AND ALL OF THE ACTORS INVOLVED GIVE A GREAT DEAL TO MAKE THE TRAINING SUCCEED.

As an indication of this, during our last fiscal year, industry contributed $2 million in cash or state-of-the-art equipment to match the State's $10 million CWETA allocation.

Moreover, this success has saved the State and industry millions of dollars in public assistance to the unemployed, by increasing the purchasing capacity of those trained, and by increasing the efficiency of business to hire and retain good employees.

Accomplishments

Nearly half of CWETA training is in electronics and high-tech fields, 14% in health care, 22% in skilled crafts, 8% in machine trades, and the balance in agricultural skills, and other fields. Approximately, 2/3rds of those trained are upgraded from dead-end jobs to jobs with a career ladder. The remaining 1/3, are trained for entry level jobs.

One third of CWETA's trainees are economically disadvantaged; 76% have inadequate or obsolete job skills; 49% are non-white and; 37% are women. All have been selected for training by the employers.

Examples of training which CWETA is funding include:

- Two high-tech centers, in Silicon Valley and Los Angeles, to train more than 1,800 people for companies such as Lockheed, Savin, Sperry Univac, Apple Computer, Fairchild, Pacific Telephone; etc.
- The largest training program for machinists in the western United States through a project sponsored by the National Tooling and Machining Association in Los Angeles;
- Training 1,600 registered nurses and licensed vocational nurses by working with 350 hospitals and long-term care facilities throughout the State;
- Upgrading the skills of several hundred farm workers to enable them to be employable year-round; and
- Training 1,200 sheet metal workers in energy management to fill an estimated 5,000 new jobs in the next three to five years in California making offices, schools and plants energy efficient.

Several other significant job training programs in California--the Employment Training Panel, which I will talk about next, and JTPA--have adopted some aspects of the CWETA model. However, only the CWETA program can currently upgrade training for employees whose skills are inadequate or obsolete and who are stuck in dead-end jobs. In these cases--again approximately two-thirds of all CWETA training--there is no existing avenue for the employee to get training unless they were to quit work altogether.

There is general acceptance in both the public and business communities throughout California of the CWETA concept. Employers, in particular, want this training to upgrade their own employees so that they will not be forced to lay off current employees and hire new, untested employees. I feel program flexibility and the concept of upgrade training are essential elements in a complete approach to job training regardless of who operates the program. These elements must be included in any future federal or state training program if it is to have any chance of success. We are currently reviewing the CWETA Program to see if it can be incorporated into our other training programs.

2. ETP: THE TAX BASED TRAINING PROGRAM

THE EMPLOYMENT TRAINING PANEL IS A NEW CALIFORNIA JOB TRAINING PROGRAM TO HELP PUT AUTO WORKERS AND MACHINISTS, AND SECRETARIES AND AUTO MECHANICS BACK TO WORK OR TO KEEP THEM FROM BEING LAID OFF IN THE FIRST PLACE BECAUSE THEIR SKILLS HAVE BECOME OBSOLETE.

THIS PROGRAM IS FUNDED BY A $55 MILLION A YEAR TAX ON EMPLOYERS. LEGISLATIVLY, IT WAS TIED TO AN INCREASE IN THE WEEKLY BENEFIT AMOUNT OF UNEMPLOYMENT INSURANCE. CONTROL OF THE FUND IS BY A SEVEN-MEMBER PANEL APOINTED BY THE GOVERNOR, THE SPEAKER OF THE ASSEMBLY AND THE PRESIDENT PRO TEM OF THE SENATE.

THE MONEY ENTRUSTED TO THE PANEL MUST BE SPENT TO RETRAIN UNEMPLOYMENT INSURANCE RECIPIENTS, PEOPLE WHO HAVE EXHAUSTED THEIR UNEMPLOYMENT CLAIMS AND REMAINED UNEMPLOYED OR PEOPLE WHO ARE LIKELY TO BE LAID OFF AND CLAIM UNEMPLOYMENT INSURANCE.

CALIFORNIA'S EMPLOYMENT TRAINING PANEL IS BASED ON A FEW PRINCIPLES THAT ARE WORTHY OF CONSIDERATION IN EXAMINING AND RESOLVING THE PROBLEMS CREATED BY ECONOMIC CHANGE, INCLUDING THE SHUTDOWN OF FACILITIES AND THE LAYOFF OF WORKERS.

First, the Employment Training Panel is not limited to providing relief in a sudden economic downturn. It has the ability to train people who are in danger of losing their jobs and can help prevent economic disasters from occurring.

And the Panel can help train workers for new or expanding business or old businesses that are retooling and need to update the skills of their workers as well as their machinery.

Second, if there is no promise of a job at the end of training, there is no training. We ensure that there is a job at the end of training by involving employers and unions from the start. Managers have the opportunity to decide what should be taught and who should teach it. They also have the opportunity to decide who has the background to succeed in the training and succeed in the new job. Payment to trainers is based on the number of people who go to work.

Third, it is a training program that can move people into careers with long-term job security. You cannot help working people by training for dead-end, minimum wage jobs. The program trains for good jobs that provide a decent living in stable or expanding occupations.

Fourth, the Panel members are all private sector people.

What has the Panel done?

With the help of the Ford Motor Co. and United Auto Workers the Panel set up training for one-quarter of the Ford workers who were laid-off in May in San Jose. The Panel is supporting training for machine operators, welders, and microwave technicians. In addition, on-the-job training plans will be developed for people who go to work for a variety of small and medium sized firms.

There is a $4 million master contract with the Los Angeles Business-Labor Councill established by the Los Angeles Federation of Labor and the Los Angeles Community College District to set up a center for Employment Training Panel projects. Retraining in computer-aided design and manufacturing has been approved for 160 persons who would otherwise be laid off. Some machinists are being trained in computer numerical control systems.

In cooperation with the Lancaster Economic Development Corporation, a workforce is being trained to assemble three-wheeled trucks.

The California Employment Training Panel is a practical and realistic model for helping prevent further human and economic dislocation. It is a cooperative business-labor program that puts people back to work and prevents layoffs in the first place when technology outdistances people's skills.

3. BLC's: Employers Impact Vocational Training

A third example, while not a training program, appears to be a useful approach. Five pilot Business-Labor Councils (BLC) have been established throughout the State. The purpose of these Councils is to bring prominent representatives from business, industry, and labor together in partnerships with local training providers so as to enhance the quality of vocational training and to ensure that the content meets the needs of local industries. BLC's are NOT duplicative of Private Industry Councils (PICs). While PICs focus on developing retraining programs under JTPA, BLCs focus on redirecting the public educational system to respond more quickly and more effectively to the needs of business and industry.

It is too early to draw definitive conclusions regarding the effectiveness of the Business Labor Council program and the efficacy of the program's concept in achieving the basic goal. However, some

GENERAL OBSERVATIONS CAN BE MADE REGARDING FIRST SIX MONTHS OF OPERATION, WHICH ARE PERTINENT TO THE POTENTIAL SUCCESS OF THE PROGRAM, INCLUDING THE FOLLOWING:

o BUSINESS AND LABOR ARE WILLING TO BE ACTIVE IN CHANGING VOCATIONAL TRAINING PROGRAMS.

o PRIVATE SECTOR EMPLOYERS WHO ARE UNWILLING TO SERVE ON PICs ARE WILLING TO SERVE ON BUSINESS LABOR COUNCILS. THIS IS BECAUSE MANY DO NOT WISH TO BECOME INVOLVED WITH THE PIC'S FEDERAL GUIDELINES NOR TO HAVE DIRECT RESPONSIBILITY FOR FUNDING AND ADMINSTERING TRAINING PROJECTS.

o MOST SCHOOLS AND COMMUNITY COLLEGES ARE ANXIOUS AND WILLING TO CONFORM THEIR CURRICULA TO RESPOND TO EMPLOYERS' NEEDS IF ADDITIONAL OR SPECIFIC FUNDING SOURCES ARE PROVIDED.

o IMPROVEMENTS IN LABOR MARKET FORECASTING PROCEDURES ARE NECESSARY BEFORE MAJOR REDIRECTION OF VOCATIONAL TRAINING RESOURCES WILL BE MADE. EMPLOYERS IN MOST INDUSTRIES ARE UNABLE TO PREDICT WITH ANY DEGREE OF ASSURANCE THEIR WORKER NEEDS BEYOND A 90 TO 180 DAY PERIOD.

o ALTHOUGH EMPLOYERS ARE GENERALLY LOOKING FOR JOB APPLICANTS WITH GOOD VOCATIONAL SKILLS, THEIR GREATEST CONCERN AT THIS TIME IS FOR GOOD BASIC SKILLS, WORK HABITS, AND ATTITUDES.

PLANT CLOSURE PROGRAMS

A SECOND GROUP OF PROGRAMS GREW DIRECTLY FROM OUR EXPERIENCES WITH MAJOR PLANT CLOSURES. WHAT CAME TO BE KNOWN AS THE "CALIFORNIA MODEL" GREW OUT OF THESE EXPERIENCES. EACH OF THE FOUR EXAMPLES I WILL DISCUSS HAD THESE MAJOR COMPONENTS IN COMMON:

EACH WAS SUPPORTED BY A STRONG PUBLIC-PRIVATE PARTNERSHIP WHICH INVOLVED THE SUPPORT OF EMPLOYERS, MAJOR UNIONS, CITY-COUNTY OFFICIALS AND STATE ENTITIES.

EACH ATTEMPTED TO TARGET TRAINING TO AN EXPANDING, OR POTENTIAL GROWTH INDUSTRY IN THE AREA.

EACH PROGRAM INVOLVED SUPPORT ACTIVITIES OTHER THAN TRAINING. THESE ACTIVITIES INCLUDED VARIOUS SOCIAL SERVICES.

(I'D LIKE TO MAKE A SPECIAL NOTE TO EXPRESS APPRECIATION TO THE CALIFORNIA MANUFACTURERS ASSOCIATION AND THE CALIFORNIA CHAMBER OF COMMERCE FOR THEIR SUCCESSFUL EFFORTS TO DEVELOP PLANT CLOSURE GUIDELINES FOR THEIR MEMBER COMPANIES. THIS KIND OF EFFORT PRECLUDES THE NECESSITY FOR LEGISLATING MANDATORY RULES.)

1. GENERAL MOTORS--UNITED AUTO WORKERS--STATE OF CALIFORNIA RETRAINING PLAN

THE STATE OF CALIFORNIA, GENERAL MOTORS (GM) CORPORATION AND THE UNITED AUTO WORKERS INTERNATIONAL UNION (UAW) ENTERED INTO AGREEMENTS WHICH PROVIDE FOR $7,695,000 FOR COUNSELING, RETRAINING, AND JOB PLACEMENT OF LAID OFF WORKERS FROM GM ASSEMBLY PLANTS IN FREMONT AND SOUTH GATE, CALIFORNIA. THIS PRECEDENT-SETTING AGREEMENT GAVE THE STATE THE OPPORTUNITY TO PUT TOGETHER A PARTNERSHIP AMONG THE PRIVATE SECTOR AND LOCAL, FEDERAL, AND STATE GOVERNMENTS. THE CONTRIBUTION OF PRIVATE SECTOR RESOURCES PROVIDED LEVERAGE FOR SECURING MATCHING PUBLIC SECTOR RESOURCES. AN ADDITIONAL $744,000 WAS PROVIDED BY THE ALAMEDA COUNTY TRAINING AND EMPLOYMENT BOARD FOR RETRAINING, JOB DEVELOPMENT, AND PLACEMENT.

THE TRIPARTITE AGREEMENT CALLED FOR RETRAINING TO BE MADE AVAILABLE FOR HOURLY RATE WORKERS IN DEMAND OCCUPATIONS.

THE PROGRAM WAS MADE POSSIBLE AS A RESULT OF AN HISTORIC COLLECTIVE BARGAINING AGREEMENT NEGOTIATED WITH GM/UAW, ESTABLISHING A JOINT SKILL DEVELOPMENT AND TRAINING COMMITTEES TO PROMOTE TRAINING, RETRAINING AND RELATED ACTIVITIES TO UPGRADE THE SKILLS OF GM AUTO WORKERS NATIONWIDE. CALIFORNIA WAS THE FIRST STATE TO TAKE ADVANTAGE OF THE GM/UAW PLAN WHICH FITS INTO RECENT EFFORTS IN CALIFORNIA to form partnerships among businesses, labor, and State and local governments to ease the effects of plant closures on both workers and communities.

Retraining under this agreement was facilitated by other State legislation. These laws allow workers laid off due to circumstances such as plant closures to collect extended unemployment insurance benefits while enrolled in a retraining program; provide specialized retraining and reemployment services for displaced workers; and authorize transportation assistance to enable laid off workers to commute to unfilled jobs in surrounding areas.

Thus far, over 8,000 displaced workers have registered with our project centers, 2,200 have entered employment and 2,600 have enrolled in training. A special effort has been made to develop training, which takes advantage of existing skills, and can be accomplished in as short a time as possible; the average length in six months.

Fortunately, the auto industry appears to be on an upswing, with over 800 of these workers having been recalled to other GM plants.

2. FORD-UAW-EDD PROGRAM

FORD WAS ABLE TO FORESEE THE CLOSING OF THEIR MILPITAS PLANT AND TO PHASE-OUT THEIR WORKFORCE OF 2,300 THROUGHOUT THE PERIOD FROM JANUARY THROUGH JULY 1983.

THIS NOTICE PROVIDED EDD WITH ENOUGH TIME TO BUILD RAPPORT AMONG SERVICE DELIVERERS, THE WORKERS, THE COMPANY, AND THE UNION; TO SURVEY WORKERS' NEEDS; AND TO PLAN WITH THE COMPANY AND THE UNION FOR THE BEST MIX OF SERVICES TO MEET THOSE NEEDS. IT SHOULD BE NOTED THAT THE EXPERIENCE WITH GM/UAW AND THE FACT THAT ONLY ONE LOCATION WAS INVOLVED ALSO CONTRIBUTED TO OUR "HEADSTART."

THIS PROJECT ALSO RELIES ON THE ACTIVE PARTICIPATION AND CONTRIBUTIONS OF EDD, THE COMPANY AND THE UNION. THUS FAR, OVER 1,700 WORKERS HAVE REGISTERED IN THE PROJECT'S CENTER, WHICH IS LOCATED IN THE PLANT ITSELF. AS WITH GM/UAW, EMPHASIS IS ON PLACEMENT AND RETRAINING, WITH SPECIAL SUPPORT ENHANCEMENTS (STRESS AND FINANCIAL COUNSELING AND TRANSPORTATION ASSISTANCE).

3. SANTA MARIA

THE SANTA MARIA PROJECT WAS AN ALL-OUT, COMMUNITYWIDE RESPONSE WHICH BEGAN IN JUNE 1981, IMMEDIATELY AFTER THE PIPER AIRCRAFT CLOSURE. WELL-ESTABLISHED COOPERATIVE WORKING RELATIONS AND CLOSE COORDINATION AMONG THREE KEY ENTITIES LED TO A COMPREHENSIVE

PROJECT WHICH FOCUSES ON WORKER NEEDS AND ECONOMIC DEVELOPMENT. THE KEY ENTITIES WERE EDD, THE CITY GOVERNMENT AND SANTA MARIA VALLEY DEVELOPERS (SMVD), A LOCAL NONPROFIT ECONOMIC DEVELOPMENT ORGANIZATION.

EDD, THROUGH THE SANTA MARIA FIELD OFFICE, HAS PROVIDED INTENSIVE EMPLOYMENT SERVICES SUCH AS PLACEMENT, JOB DEVELOPMENT, COUNSELING, JOB SEARCH TRAINING, TESTING, AND EMPLOYER OUTREACH. SMVD AND THE CITY ASSISTED IN AN INTENSIVE EMPLOYER OUTREACH TELEPHONE CAMPAIGN, A WEEKEND JOB FAIR SPONSORED BY A LOCAL REALTORS' GROUP (IN COOPERATION WITH A PRIVATE EMPLOYER), AND A WORKSHOP ON FINANCIAL MANAGEMENT CONDUCTED BY THE VICE-PRESIDENT OF A LOCAL BANK.

EDD'S FIELD OFFICE MANAGER PLAYED A LEAD ROLE IN THE FORMATION OF THE VANDENBERG (AIR FORCE BASE) TASK FORCE, A CONSORTIUM MADE UP OF EDD, AEROSPACE EMPLOYERS, AND LOCAL EDUCATIONAL AGENCIES. THE TASK FORCE WORKED TO ENSURE THAT THE MAJORITY OF PERSONS HIRED FOR TECHNICAL AND AEROSPACE JOBS AT THE BASE OVER THE NEXT FEW YEARS WERE LOCAL RESIDENTS. TO ACCOMPLISH THIS GOAL, THE TASK FORCE ANALYZED EMPLOYER DEMANDS AND FACILITATED THE DEVELOPMENT OF SPECIALLY DESIGNED COURSES THAT WOULD ENABLE DISPLACED WORKERS TO FILL POSITIONS IN ELECTRICAL AND MECHANICAL FIELDS.

4. WEED

In December 1981, International Paper (IP) Company announced plans to sell its Weed facility or close its doors by June 1982. Since closure would have a devastating effect on both the town (population approximately 3,000) and the county, various community representatives (including EDD) met to assess the situation and draw up contingency plans, forming the Weed Community Action Committee. Initial efforts received a mixed response. In exploring economic development options, for example, the committee helped develop a Employee Stock Ownership Plan which was submitted to IP for consideration along with other bids.

Still without a buyer, IP closed the mill in May. EDD immediately offered basic employment services to IP workers through the Mt. Shasta field office. When the College of the Siskiyous (COS) in Weed obtained a grant for career counseling and vocational education services to displaced workers, EDD outstationed a job developer part-time at COS in order to provide intensive job development services to IP workers.

In the interim, while still accepting bids, IP funded an economic and social consulting firm to assist the community in planning for the future. The firm, Community Dynamics, worked with the newly formed Planning for Tomorrow Committee (PFTC) headed by the mayor of Weed.

A MARKETING SURVEY AND ECONOMIC DEVELOPMENT ACTIVITIES WERE INITIATED, WITH TECHNICAL ADVICE FROM COMMUNITY DYNAMICS. BASED ON RECOMMENDATIONS FROM EDD, THE PFTC SUBMITTED A PROPOSAL TO IP FOR FUNDING A REEMPLOYMENT CENTER, AS WELL AS ADDITIONAL ECONOMIC DEVELOPMENT ACTIVITIES.

SALE OF THE MILL TO ROSEBURG LUMBER COMPANY WAS ANNOUNCED IN DECEMBER 1982.

ROSEBURG BOUGHT INTO WEED, NOT TO GET A GOING SAWMILL OPERATION, BUT TO GET THE PLANT SITE AND THE LEGION OF SKILLED MILL AND TIMBER WORKERS WHO STILL LIVE IN THE COMMUNITY. "THAT'S WHY WE'RE HERE. WE GOT THESE PEOPLE AND WE GOT A GOOD PLANT SITE, PERIOD," SAID MARTIN GRUGETT, WEED MANAGER FOR THE ROSEBURG LUMBER CO. OF OREGON.

STRUCTURED UNEMPLOYMENT PROGRAMS

THE THIRD GROUP OF PROGRAMS ARE MORE DIRECTLY RELATED TO TRADITIONAL STRUCTURAL UNEMPLOYMENT. THE PRINCIPAL PROGRAM IS OF COURSE JTPA. THE OTHER IS OUR "WORK SHARING UNEMPLOYMENT INSURANCE."

CALIFORNIA WILL DISBURSE 75 PERCENT OF JTPA TITLE FUNDS DIRECTLY TO SDAS WHICH HAVE DOCUMENTED THEIR NEEDS THROUGH THE SUBMISSION OF A TITLE III PLAN. TWENTY-FIVE PERCENT OF FUNDS WILL BE RETAINED TO ADDRESS NEEDS THAT ARISE SUBSEQUENT TO THE INITIAL ALLOCATION.

WORK SHARING UNEMPLOYMENT INSURANCE
(WSUI)

SENATE BILL 1471, PIONEERING LEGISLATION PASSED BY THE CALIFORNIA LEGISLATURE IN 1978, AUTHORIZED THE WORK SHARING UNEMPLOYMENT INSURANCE PROGRAM. THIS LEGISLATION ALLOWS THE PAYMENT OF WORK SHARING UNEMPLOYMENT INSURANCE BENEFITS TO PERSONS WHOSE WAGES AND HOURS ARE REDUCED AS A TEMPORARY ALTERNATIVE TO LAYOFFS.

THE PROGRAM HELPS EMPLOYERS AND EMPLOYEES AVOID SOME OF THE BURDENS THAT ACCOMPANY A LAYOFF SITUATION. FOR INSTANCE, IF EMPLOYEES ARE RETAINED DURING A TEMPORARY SLOWDOWN, EMPLOYERS CAN QUICKLY GEAR UP WHEN BUSINESS CONDITIONS IMPROVE. EMPLOYERS ARE THEN SPARED THE EXPENSES OF RECRUITING, HIRING, AND TRAINING NEW EMPLOYEES. IN TURN, EMPLOYEES ARE SPARED THE HARDSHIPS OF FULL UNEMPLOYMENT. FOR EMPLOYERS WHO NEED TO REDUCE THEIR WORKFORCES PERMANENTLY, THE PROGRAM CAN BE USED AS A PHASED TRANSITION TO LAYOFF. AFFECTED EMPLOYEES CAN CONTINUE TO WORK AT REDUCED LEVELS WITH AN OPPORTUNITY TO FIND OTHER EMPLOYMENT PRIOR TO THE EXPECTED LAYOFF.

BETWEEN JULY 1978 AND JULY 1983 ALMOST 6,500 EMPLOYER PLANS HAVE BEEN APPROVED, AFFECTING OVER 200,000 EMPLOYEES.

ADDITIONAL STATE LEGISLATION PASSED THIS YEAR (SB 57) ELIMINATES THE 20-WEEK ANNUAL LIMIT FOR ANY EMPLOYEE AND SUBSTITUTES A SIX-MONTH PLAN LIMIT ON EMPLOYERS. THE PLAN IS RENEWABLE IF THE UNEMPLOYMENT RATE IN THE STATE EXCEEDS 7.5 PERCENT.

RECOMMENDATIONS

1. Government should encourage and assist the private sector in providing specialized training. Some examples of ways to do this include:

   Tax incentives. Programs such as Targeted Jobs Tax Credit (TJTC) are good examples of this. Generally; however, these programs are targeted to job-seekers with special needs, and this may be a necessary and desirable feature of tax-break training programs.

   Worksite Training Programs. The Employer Training Panel and CWETA are good examples of this. These programs are useful in retraining employees to equip them for technological change, to prepare them for higher level jobs and to provide employees for rapidly expanding industries. "Upgrade" training programs also create employment opportunities in entry level jobs.

2. We need a truly comprehensive Labor Market Information (LMI) system to meet state, local as well as national, information needs. Very large employers that have knowledgeable staffs of planners and economists often can anticipate their employment needs and are an important source of labor market information. The vast majority of employers, as well as planners and counselors in schools, Private Industry Councils, Job Service Offices

AND OTHER PUBLIC PROGRAMS, MUST RELY ON INFORMATION PROVIDED THROUGH THE DEPARTMENT OF LABOR AND THE STATE EMPLOYMENT SECURITY AGENCIES. WE HAVE (IN CALIFORNIA) AN EXCELLENT RELATIONSHIP WITH THE BUREAU OF LABOR STATISTICS, AND THE STATE-FEDERAL COOPERATIVE STATISTICAL PROGRAM FORM THE SOLID FOUNDATION OF A STATE AND LOCAL LMI PROGRAM. HOWEVER, THEY FALL FAR SHORT OF PROVIDING THE SPECIFIC TIMELY, LOCAL OCCUPATIONAL INFORMATION WHICH INDUSTRY AND THE PUBLIC SECTOR NEED TO PLAN TRAINING PROGRAMS. CONGRESS AND THE DEPARTMENT OF LABOR MUST FUND, AND SUPPORT A NATIONAL LMI PROGRAM THAT MEETS STATE AND LOCAL NEEDS.

3. NATIONAL PROGRAMS MUST NOT BE SO CATEGORICAL AND SO SPECIFIC THAT STATE AND LOCAL PROGRAM PLANNERS AND OPERATORS CANNOT RESPOND TO THE UNIQUE NEEDS OF THEIR STATES AND LABOR MARKETS. JTPA HAS NOT MADE A GOOD START IN THIS DIRECTION.

4. THERE MUST BE EXTREMELY CLOSE COORDINATION AMONG PUBLIC PROGRAMS. IT IS CRUCIAL THAT THIS TAKE PLACE AT BOTH THE LOCAL AND STATE LEVEL. THERE ARE SO MANY AGENCIES AND PROGRAMS INVOLVED THAT COORDINATION OF THESE EFFORTS BECOMES A SEPARATE AND MAJOR RESPONSIBILITY OF LOCAL OFFICIALS.

5. RECOGNIZING THAT THE VOCATIONAL EDUCATION ACT IS NOW BEFORE CONGRESS FOR REAUTHORIZATION, FOR PURPOSES OF THIS HEARING, I WANT TO URGE INCREASED COORDINATION REQUIREMENTS REGARDLESS OF THE EVENTUAL FORM OF THE REAUTHORIZATION.

6. GOVERNMENT SHOULD CONTINUE TO PLAY A ROLE IN EMPLOYMENT TRAINING. PUBLIC EDUCATION IS IN LARGE PART A RESPONSE TO THE INDUSTRIAL REVOLUTION AND THE NEED FOR HIGHLY SKILLED AND TRAINED WORKERS IN A COMPLEX ECONOMY. THE PRESENT PREOCCUPATION WITH "HIGH-TECH" INDUSTRIES AND THE NEED TO TRAIN WORKERS FOR SOPHISTICATED "HIGH-TECH" OCCUPATIONS IS ONLY THE MOST RECENT MANIFESTATION OF A LONG PROCESS. THEREFORE, WE HAVE TO CONTINUE TO ASSUME, IN THIS EXTREMELY LARGE, COMPLICATED AND VOLATILE SOCIETY, THAT GOVERNMENT STILL NEEDS TO ASSIST SOME INDIVIDUAL CITIZENS TO PREPARE FOR WORK, AND THE INDIVIDUAL EMPLOYERS TO COPE IN FILLING JOBS. THE QUESTION IS THE PROPER IDENTIFICATION OF THE RESPONSIBILITIES OF THE PUBLIC AND PRIVATE SECTORS.

GOVERNMENT SHOULD BE WARY OF BECOMING OVERLY INVOLVED IN DIRECT TRAINING FOR SPECIFIC SKILLS WHICH CAN BE DONE MORE EFFECTIVELY AND EFFICIENTLY BY EMPLOYERS THEMSELVES. EMPLOYERS OFTEN DESIRE A TRAINABLE PERON RATHER THAN A HIGHLY SKILLED WORKER. TWO RECENT REPORTS ADDRESS THIS ISSUE. DR. MARK BENDICK JR. STATED

THAT "FUNCTIONAL ILLITERATES DO NOT MAKE SAFE, FLEXIBLE, PRODUCTIVE, OR EASILY-TRAINED EMPLOYEES; THAT, RATHER THAN THEIR LACK OF SPECIFIC JOB SKILLS, IS WHAT SCREENS THEM OUT OF JOB OPPORTUNITIES".

[A STATEMENT BEFORE THE COMMITTEE ON SCIENCE AND TECHNOLOGY AND THE COMMITTEE ON THE BUDGET, U.S. HOUSE OF REPRESENTATIVES, JUNE 9, 1983, PAGE 12.]

IN A STUDY PREPARED FOR THE LOS ANGELES AREA CHAMBER OF COMMERCE, DR. WELLFORD W. WILMS REPORTED THAT "GOOD WORK HABITS AND POSITIVE ATTITUDES WERE GENERALLY REGARDED (BY EMPLOYERS) AS CRUCIAL TO AN EMPLOYEE'S SUCCESS ON THE JOB. . . ".

[TECHNOLOGY, JOB SKILLS, AND EDUCATION, JANUARY 25, 1983.]

THERE ARE A NUMBER OF REASONS FOR PUBLIC TRAINING PROGRAMS, INCLUDING:

BASIC OCCUPATIONAL LITERACY. THESE ARE THE KNOWLEDGE SKILLS WHICH MANY, BUT NOT ALL, ACQUIRE THROUGH A HIGH SCHOOL EDUCATION-READING, WRITING, ARITHMITIC.

WORK HABITS. SOME PEOPLE ARE NOT PREPARED FOR THE SOCIAL AND BEHAVIORAL DEMANDS OF THE WORKPLACE AND NEED SPECIAL PREPARATION IN THESE AREAS.

GENERALIZED TRAINING. THE BASIC PREPARATION FOR GENERALIZED OCCUPATIONS WHICH ENCOMPASS MANY MORE SPECIALIZED JOBS-WELDERS, MACHINISTS-CAN BE OBTAINED THROUGH PUBLIC TRAINING PROGRAMS; INDIVIDUALS ARE PREPARED FOR A WIDE RANGE OF SPECIFIC JOBS; EMPLOYERS CAN RECRUIT FROM A WIDE POOL OF PERSONS PREPARED FOR IMMEDIATE EMPLOYMENT OR FOR MORE SPECIALIZED TRAINING.

TRAINING FOR PERSONS WITH SPECIAL BARRIERS TO EMPLOYMENT. PERSONS WITH NO WORK EXPERIENCE (AND PARTICULARLY, YOUTH), DISABILITIES, SOCIO-ECONOMIC DISADVANTAGES, AND SO FORTH, REPRESENT HIGH RISK AND HIGH COST FOR EMPLOYERS WHO UNDERTAKE TO TRAIN THEM. GOVERNMENT HAS A SPECIAL OBLIGATION TO PREPARE THESE PEOPLE FOR EMPLOYMENT.

DISPLACED WORKERS. THESE PEOPLE OFTEN FACE DIFFICULT REEMPLOYMENT PROBLEMS; LACK OF TRANSFERABLE SKILLS, AGE, THE STRESS OF THE DISRUPTION CAUSED BY UNEMPLOYMENT AFTER YEARS OF WORK. THE ALREADY-DECLINING INDUSTRIES AND CLOSED BUSINESS THAT ARE FORCED TO LAYOFF EMPLOYEES OFTEN ARE NOT EQUIPPED TO HELP. GOVERNMENT HAS A VERY IMPORTANT ROLE HERE.

TRAINING FOR OCCUPATIONS IN DEMAND. THE MAJORITY OF EMPLOYERS ARE SMALL BUSINESS; THE MAJORITY OF WORKERS ARE EMPLOYED IN SMALL BUSINESSES. INDIVIDUALLY, THESE FIRMS OFTEN DO NOT HAVE THE RESOURCES TO ANTICIPATE THEIR OWN EMPLOYMENT NEEDS, NOR DO

THEY HAVE THE RESOURCES TO DO EXTENSIVE TRAINING. GOVERNMENT, THEREFORE, CAN PRODUCTIVELY ASSUME RESPONSIBILITY FOR TRAINING FOR OCCUPATIONS WHICH REPRESENT FUTURE JOB OPPORTUNITIES, BUT WHICH ARE NOT CONCENTRATED IN A FEW FIRMS OR INDUSTRIES.

SUMMARY

IN SUMMARY, THE MAJOR POINT IS THAT TRAINING FOR EMPLOYMENT IS AN IMPORTANT-ESSENTIAL-COMPONENT OF ECONOMIC DEVELOPMENT AND GROWTH. OBVIOUSLY, THE COMPETITIVENESS OF THE UNITED STATES IN THE WORLD'S MARKETPLACES DEPENDS ON MANY FACTORS, BUT THE AVAILABILITY OF WORKERS TRAINED FOR INCREASINGLY DIFFICULT AND TECHNICAL JOBS IS A MAJOR DETERMINANT OF OUR FUTURE ECONOMIC WELL BEING. THAT ECONOMIC GROWTH PROVIDES THE OPPORTUNITIES FOR ALL MEMBERS OF SOCIETY-INCLUDING THOSE WHO HISTORICALLY HAVE HAD THE GREATEST DIFFICULTY IN OBTAINING EMPLOYMENT TO BE PRODUCTIVE; AT THE SAME TIME, HIGHER LEVELS OF EMPLOYMENT REDUCE THE EXPENDITURES WHICH MUST BE MADE BY SOCIETY FOR INCOME TRANSFER PROGRAMS. WELL-DESIGNED AND WELL-MANAGED TRAINING PROGRAMS ARE A KEY ELEMENT IN THIS ECONOMIC AND SOCIAL BALANCE.

Representative Lungren. Thank you, Mr. Kiddoo. Our next witness is Ernest Savoie, director of the labor relations planning and employment office, the labor relations staff of the Ford Motor Co.

Welcome, Mr. Savoie, you may proceed as you wish.

STATEMENT OF ERNEST J. SAVOIE, DIRECTOR, LABOR RELATIONS PLANNING AND EMPLOYMENT OFFICE, FORD MOTOR CO.

Mr. Savoie. Thank you, Congressman Lungren. First, I would like to congratulate whoever did the scheduling because I feel as if the observation should be made that the buck stops here. [Laughter.]

I am the director of labor relations planning and employment office of Ford Motor Co.'s labor relations staff. But I am also a member of the joint governing body of the UAW-Ford national development and training center.

My appearance in this dual role underscores the concepts of mutuality and of jointness that made possible the subject of this report—the UAW-Ford national training program and its joint national center.

And although our program has been in operation for less than a year, some 7,000 individuals nationwide already have taken advantage of one or more of its features.

Mr. Congressman, I have filed a more detailed prepared statement on our program with the committee and with your permission, in the interest of abiding by the time available, I would like to enter the entire prepared statement, as you indicated before, in the record. I will now summarize it.

Our employee development and training program is not a standalone creation, but one of several mutual growth features of our 1982 collective bargaining agreement. A greater understanding of the joint training approach requires perhaps a brief review of that agreement and an antecedent joint effort of major scope—our UAW-Ford employee involvement process.

Employee involvement, or simply EI, as we call it for short, had its start at Ford in our 1979 labor agreement. This process rests on the principle that people have more to offer than just the strength of their bodies or their presence at work—that when given the opportunity, the time, and the training, that they can and will contribute mightily in terms of positive ideas that will help solve work-related problems and enhance work relationships.

Ford and the UAW are full partners in this effort. We created the process together and we administer it jointly together. The basic structure of our EI effort consists of local joint steering committees and voluntary employee problem-solving teams. We have such EI steering committees at virtually every one of our major facilities and there are over 15,000 employees in some 1,500 problem-solving teams. In total, some 25,000 employees have received EI support training.

Among the most notable achievements of the EI for us are improved product quality, improved management-union relationships, and, according to a survey, dramatic increases in employee job satisfaction—from 58 percent before EI to 82 percent—and from 27 percent to 82 percent in employee-perceived opportunities to accomplish something worthwhile.

I could go on and on, for EI for us is truly an industrial success story. But the point for today is that EI forged new attitudes and new relationships over this period of time. It also was the catalyst that we believe that made our 1982 national agreement possible.

As we approached the bargaining table, both sides had learned first-hand in those prior years how to cooperate, how to share concerns and information, and how to resolve problems. We concluded the 1982 agreement in 13 days—6 months ahead of time—a first in the industry and without a strike. The agreement included labor cost moderation, which was important for international competitiveness, commitment by both parties to promote competitiveness in the future, extensive job security and job protection measures, profitsharing for the future, and pilot human resource projects.

It also launched the joint UAW-Ford employee development and training program. This program is built on the same participative principles and has many of the same ingredients that are basic to EI—local committees, employee volunteerism, local program flexibility and autonomy, and national encouragement and support.

Our program focuses on individuals and allows both our active and laid-off employees to seek educational and training opportunities. The program is funded by company contributions of 5 cents per hour worked, with specific expenditures authorized by a joint governing body of company and UAW representatives.

Now the program's objectives include providing services for active employees and support of our EI effort. Most of our efforts thus far have been designed to assist dislocated employees because of the critical nature of this problem and the need for immediate action for them.

Let me take just a moment to put into perspective the work force changes that have occurred at Ford.

Our hourly employment peaked in 1978 at just over 200,000. The industrywide depression subsequently reduced that hourly work force by one-half, to around 100,000. Today, we have about 107,000 hourly employees on roll and over 37,000 on layoff still have seniority recall rights. These employees, both active and layoff, reside in 22 States.

Just this year, in June 1983, our national center left its temporary quarters to open its doors in a new building on the Henry Ford Community College in Dearborn, Mich. Importantly, the program is not isolated or limited to any one location, although our planning center is in Dearborn, but it extends into all of the communities where our laid-off employees are located, where we create working consortiums with external groups. No one alone, we believe, can handle the problem of worker dislocation. As a result, we must, and we are, working with governmental, social, and educational resources.

Now when we negotiated our program, we made no attempt to set out all the details of what we wanted to do or how to do it. We expanded on the principles that we have learned through EI of mutual trust and problem-solving, and we were content with the general charter in the agreement itself. Most people could not believe that type of language.

We knew, however, that we could work together to fashion specific programs and to allocate the funds and to staff intelligently for these purposes. We also knew that we needed professional help, a dedicated planning group, and we did not want to duplicate any existing services in the educational community or governmental field.

This is why we established a center concept with a small staff of professionals experienced in vocational education, training, career counseling, and in job development. We wanted to encourage the local union and plant management in their autonomy and in their local ownership so that those who are closest to the situation would be intimately involved. And we wanted to serve the needs and desires of individual employees and not to impose our own preconceptions.

Now with respect to the dislocated worker, the outcome in less than a year has been six distinct approaches, and I will try to go through these quickly. The first logical step we found for such a program is to organize what we call Career Day conferences where we convene groups of laid-off employees in a locality to inform them of their program options and of available community services.

From January through August of this year, 12 Career Day conferences were conducted, attended by over 5,000 laid-off employees from 17 locations. The details of this program are in the full testimony.

In the next step, the national center, upon local request, assists the local committee in designing and administering a survey instrument tailored to that community to gather information on employee plans and interests. Such surveys assist the individual in beginning the process of self-evaluation, exploration of alternatives and, of course, they are essential to facilitate the planning of specific local activities.

From October 1982 through August 1983, 12 discrete surveys were administered to some 6,000 laid-off employees.

These programs assist employees in their self-evaluation process by helping formulate specific career goals, and plans to attain them through career counseling and guidance. Our programs have four main components—self-awareness, career awareness, career decision-making, and career planning. Using model guidelines that were developed for us by the Macomb Community College and then refined by the national center, we tailor these locally through existing institutions. The national center helps local unions and managements to obtain the delivery of the specific program which may be anywhere from 1 to 3 weeks. From December 1982 through August 1983, seven of our local joint committees have initiated such projects and about 1,100 participants were in them.

We initiated right at the beginning of our program, in August 1982, a prepaid tuition assistance plan. This is a self-selected, voluntary, prepaid tuition plan. Some people call it our own GI bill of rights. There have been over 3,000 enrollments in this program since August 1983. Briefly, the plan pays tuition and certain fees, up to $1,000 per year for up to 4 years for self-selected education and training of any type the individual wants.

The national center administers this plan in its entirety, including evaluating the applications, responding to the applicants, and reimbursing schools. And you will see a report that we had done by a professor from Macomb Community College that shows that people are really selecting the types of programs that have been described here for the future programs in the fields of vocational technical education when left on their own.

Another strategy involves creating what we call targeted vocational retraining projects, or TVR's. This is the type of group retraining that has been discussed by the other panelists. These consist of specially designed, full-time, technical or skills-oriented retraining programs. They focus on areas identified as having job prospects or representing future job growth markets.

Our national center staff will go to a locality and evaluate labor market prospects with the Government sources. They will then obtain detailed project proposals from educational and training institutions. Each such program includes a full complement of assessment, counseling, job search preparation and placement services, and project evaluation as well as training. TVR projects have been initiated in cooperation with local training providers enrolling a total of some 400 individuals to date.

Now, for various reasons, of course, many individuals neither need nor want retraining and are interested principally in job search assistance for employment that is consistent with their background and their experience. Job search skills workshops provide laid-off employees with professional job search assistance that includes provision of labor market information, the development of job-seeking support systems, résumés, and interviewing skills.

And from December 1982 through August 1983, special job search skills workshops were attended by 800 employees at over 8 locations.

I would like to say a few words now about plant closings, and I have mixed feelings as I discuss our special national center assistance for plant closings.

I am proud, of course, of what has been accomplished in establishing and implementing comprehensive, integrated, and intensive action plans for our San Jose, Calif., Milpitas facility and our Sheffield, Ala., plant closings. But, obviously, I would much prefer to talk about opening new plants and retraining people for being new employees, so there are some kudos that we get that we do not want.

Assistance for employees displaced by plant closings in terms, of course, of income support, other benefits, and intracompany placement have traditionally been a provision of our collective bargaining agreement and these provisions are administered locally.

What we did in 1982 in our EDTP and our national center is to provide special assistance with respect to career guidance, outside job search, and retraining. The national center, through onsite consultation and liaison with governmental and community agencies, has assisted both San Jose and Sheffield plants in designing their own local union approaches, in addition to funding particular features of local action plans. For instance, our program will fund many of the services in conjunction with the local people. The program has been beneficial in enabling us to join with these external sources.

The program and the national center have helped local unions and managements obtain assistance under the Job Training Partnership Act and other Federal and State dislocated employee and training provisions.

External commitments from monetary and in-kind contributions of some $3 million have been received, either through action of the center or through the local parties with center assistance. About $2.8

million of these funds are slated for San Jose and Sheffield and I think we have just received from the State of California another million dollars from the discretionary fund.

The local EDTP committee at San Jose, and you have a listing here in the testimony of the type of training they have done in conjunction with the community and governmental sources, has aggressively pursued a full range of assistance programs. By now, every laid-off employee at San Jose has had the opportunity to participate in at least one educational retraining or counseling activity. And many have participated in more. At our Sheffield plant, a full service reemployment assistance center has been established at the local UAW union hall. And a number of actions have been taken and some of these programs are fully operational. Others are in the planning stage since the plant just was closed a few months ago.

Now, hopefully, this recital of program configurations and statistics will not obscure the real focus of this activity—the individual laidoff worker. We believe that none of what we are trying to do makes much sense if it does not contribute directly or indirectly, either immediately or long term, to an enhancement of the individual's personal and work life.

We know the basic goal of a dislocated worker is reemployment. But not just any employment. Dislocated workers, especially, may feel that the system has let them down. They want a quality job and one with dignity and one that will last. Whatever contributes to achieving these goals, we feel has some utility.

Now our program intake rates are quite high, we understand, compared to similar programs. Yet, perhaps no more than 10 to 40 percent of an eligible population will be impacted by these services. A report from San Jose said that out of some 1,400 to 1,500 people, 500 indicated after preliminary counseling, they have no need for services.

In other words, retraining and related support is not a full plate. It is only one part of the menu. And even where it is practical, retraining and its related support is only one part of the solution. This is not to suggest that training and support are not important, for, indeed, they are. But a sense of perspective is necessary to avoid false promises and false routes and to promote success within the limits of what can be accomplished.

Perhaps the key measure of success should be expressed less in statistical terms and more in human qualities—the sense of accomplishment in obtaining new skills and reemployment; and the thanks and hopes of individuals and families that are rekindled in themselves, in their society, and in their institutions. And that, more than anything else, is what we wanted to do and what our program is all about.

Now our training program is clearly new ground in collective bargaining.

It is new in terms of the people that it services, not only active workers—and I have not had the opportunity here to discuss that—but laidoff workers, many with little or no prospect for reemployment with the company.

It is new in terms of its structure: A jointly governed national center with a qualified professional staff to develop and nurture the program goals, to instill a sense of immediacy and urgency to move, but only as the local people and local committees and laid-off employees voluntarily agree.

It is new in terms of its focus on local programs initiated and administered by local union and plant management leaders, the people that we feel are closest to the human problems and who have an emotional and organizational stake in the outcome.

And it is new in its outreach to the community by these sources, by seeking the assistance of available educational and other community resources in delivering high quality training and development.

Can such a program be a pattern for others? Yes and no. We feel they will have to answer that for themselves. Naturally, the UAW-Ford approach is rooted in our own specific experience and circumstance, and that is why I went back to our employee involvement process.

Certainly, much can be learned from any approach. In doing ours, we studied others and we learned from them. Our whole approach, therefore, may not be germane, but certain portions may be adaptable for other people. And the spirit, of course, certainly is.

So, in conclusion, Congressman Lungren, I submit that while many of our specific program features are not unique or unusual, we believe we have taken a new approach in the overall packaging, in the spirit, the caring, and the delivery.

While, obviously, what would be most helpful to the dislocated worker is simply more jobs. In the meantime, training has a place and we should and will continue to do what we can to assist willing individuals along the painful path of job transition. Though the entire structural unemployment problem cannot be solved simply by training, much good can be done. Many individuals can be helped. We, therefore, should not be deterred because we have not found a universal solution. I submit that we never will and that what we had better concentrate on doing what we can.

We feel that working through the Government, the communities, and with the right spirit, that together we can fashion some useful answers.

Thank you very much.

[The prepared statement of Mr. Savoie, together with the attached exhibits, follows:]

Prepared Statement of Ernest J. Savoie

THE UAW-FORD EMPLOYE DEVELOPMENT AND TRAINING PROGRAM AND ITS JOINT NATIONAL CENTER

Mr. Chairman and members of the Joint Economic Committee, my name is Ernest J. Savoie and I am Director of the Labor Relations Planning and Employment Office of Ford Motor Company's Labor Relations Staff. I am pleased to be here today, not only in this capacity, but also as a Member of the Joint Governing Body of the UAW-Ford National Development and Training Center.

My appearance in this dual role underscores the concepts of mutuality and "jointness" that made possible the subjects of this report — the UAW-Ford Employe Development and Training Program and its Joint National Center.

These concepts are important to an appreciation of the power and strength of our model, if one wishes to call it that, to assist the experienced adult worker whose life is abruptly disrupted by the forces of economic change. Although our program has been in full operation only a year, some 7,000 individuals already have taken advantage of one or more of its features. These features include career day conferences, vocational interest surveys, career counseling and assessment by professional personnel, job search skills training, prepaid tuition assistance for self-selected education or retraining, accelerated full-time group-sized retraining in skills of forecasted job growth, and special broad assistance for facilities that unfortunately had to be closed because of depressed market and economic conditions.

With respect to closed plants, our National Center has been selected by the U.S. Department of Labor to co-administer a Title III discretionary Job Training Partnership Act (JTPA) grant of $875,000 to the state of Alabama to assist employes at our Sheffield Plant. Also, the existence of our program and of the Center helped our San Jose assembly plant, located in Milpitas, California, enter into a cooperative arrangement with the state of California that includes the allocation of JTPA and other funds. We are seeking to create similar joint efforts in other states where we still have substantial numbers of displaced employes.

Our Employe Development and Training Program is not a stand-alone creation but one of several interlocking mutual growth features of our 1982 Collective Bargaining Agreement with the UAW. A greater understanding of our joint training approach can be gained from a brief review of the background of that Agreement and an antecedent joint effort of major scope: the UAW-Ford Employe Involvement Process.

Employe Involvement, or EI as we call it for short, had its start at Ford in our 1979 Collective Bargaining Agreement. The UAW-Ford EI process rests on the principle that people have more to offer than the strength of their bodies — that when given the opportunity, the time and the training, they can and will contribute mightily in terms of positive ideas that solve work-related problems, improve the work environment, and enhance work relationships. Ford and the UAW are full partners in this effort. We created the process together, and we administer it together.

The basic structure of EI consists of local joint steering committees and voluntary employe problem-solving teams. We have EI steering committees at virtually every one of our major facilities, and there are over 15,000 employes in some 1,500 problem-solving teams. In total, approximately 25,000 employes have received EI support training. Among the most notable achievements of EI are improved product quality which is up by 52%, car for car, over 1980 levels; improved management-union relationships as demonstrated at the bargaining table in 1982 and in the daily relationships in our 95 bargaining units; and according to a survey, dramatic increases in employe job satisfaction (from 58% before EI to 82%) and in employe-perceived opportunities to accomplish something worthwhile (from 27% to 82%).

Two years ago, at an early stage in the development of the Ford Tempo and the Mercury Topaz, our new front-wheel-drive cars, we showed prototypes of the vehicles to the employes in the assembly plants. We wanted their ideas on how we might improve the products as well as the manufacturing process. The outcome was more than 400 suggestions — with nearly three-fourths of them adopted and used. At Indianapolis, we were having problems with steering gear valves. An EI problem-solving team investigated and proposed corrective measures. The result: scrap went down, first-time capability shot up, and we cancelled plans to buy an expensive retest machine. In Dearborn, a research and engineering joint hourly and salaried EI group successfully presented a proposal to open a Ford employe fitness center. Labor associated with refurbishing the facility was volunteered by hourly and salaried employes. The fitness center is governed by a joint hourly and salaried board of directors; current membership is approximately 2,500 hourly and salaried employes. Program design, development, and instruction are done with the University of Michigan's Physical Education Department.

It is unfortunate that time allows us to highlight only a few specific achievements. There are literally thousands of other case studies where EI has delivered results. And continuing results, regardless of size, but on a broad scale — are far more important than just a few showy, spectacular ones.

Employe Involvement has boosted employe job satisfaction, and helped to improve attendance. It has been an important factor in reducing grievances — as much as 75 percent at some plants — and improving the quality of our products and the work environment. EI is working for us, for the union, for our customers and for the public.

I could go on and on, for EI is truly an industrial success story; but for today's purpose, the point is that EI forged new attitudes and new relationships. EI was the catalyst, we believe, that made the 1982 Ford-UAW national agreement possible. As we approached the bargaining table in 1982, both sides had extensive experience with Employe Involvement. We had learned first-hand how to constructively cooperate, share concerns and resolve problems. We jointly recognized the need, and shared the determination, to be internationally competitive.

As a result, we concluded an agreement in 13 days — six months ahead of time, a first in the industry — and without a strike. Because of the healthy relationship we had established, we found it possible to fashion an agreement with a number of innovative features. Many called it "historic." It certainly was not typical or traditional. And the employes endorsed it overwhelmingly. We called the accord the "Mutual Growth Agreement", and it bears the indelible stamp of Employe Involvement. In both tone and substance, the negotiations — and the end result — broke new ground, and provided an assurance of 30 months of uninterrupted production, thus supporting the largest product launch in Ford's 80-year history.

The agreement included labor cost moderation, commitment by both parties to promote competitiveness, extensive job security and job protection measures, profit-sharing and pilot projects. It also launched the joint UAW-Ford Employe Development and Training Program.

The Employe Development and Training Program (EDTP) is built on the same participative principles and has many of the same ingredients basic to Employe Involvement: local committees, employe voluntarism, local program flexibility and autonomy, and national encouragement and support. The program focuses on individuals and allows both active and laid-off employes to seek educational and training opportunities. The Program is funded under the Collective Bargaining Agreement by Company contributions of 5 cents per hour worked, with expenditures authorized by a Joint Governing Body of Company and UAW representatives. While the Program's objectives include providing services for active employes and to support EI, most of our efforts thus far have been designed to assist dislocated employes because of the critical nature of this problem and the need for immediate action.

Let me take a moment to put into perspective the work force changes that have occurred at Ford. Our hourly employment alone peaked in 1978 at just over 200,000. The industry-wide depression subsequently reduced that hourly work force by one-half to around 100,000. Today, we have about 107,000 hourly employes on roll and over 37,000 on layoff who still have seniority recall rights. These employes, by the way, both at work and on layoff, reside in 22 states.

In June 1983, the National Development and Training Center left temporary quarters to open the doors of its new building on the Henry Ford Community College campus in Dearborn, Michigan. Importantly, the Program is not isolated or limited to any one location but extends into the many communities where our laid-off employes are located to create working consortiums with external groups to help them. No one — alone — can handle the problem of worker dislocation. We must, and we are, working closely with governmental, social and educational resources. This is a matter of conscious choice, philosophical as well as practical. Our Center does not itself, for the most part, provide educational or training services to the eligible population, but brokers such services from existing institutions and organizations most qualified to deliver them.

The National Center is the flesh-and-blood, bricks-and-mortar embodiment of the Employe Development and Training Program. Our 1982 Agreement charters the Program, and through it the National Center, to ". . . promote training, retraining and development activities and efforts, and, in the process ... contribute to the competitiveness and well-being of the Company — aspects which are essential to the job security, personal growth, and development of Ford employes." The Program has four principal objectives, but today's focus is limited to the one that most closely deals with the subject of this hearing — assistance for dislocated, or if you will, structurally unemployed workers. Exhibit I contains the collective bargaining documents covering the Program and its goals, funding, general structure and key mechanisms. The Co-chairmen of the Joint Governing Body of the National Center are Peter J. Pestillo, Ford's Vice President of Labor Relations, and Stephen P. Yokich, UAW Vice President and Director of its National Ford Department.

ASSISTANCE FOR DISLOCATED WORKERS

When we negotiated our Program, we made no attempt to set out all the details of what we wanted to do or how to do it. We expanded on the EI principles of mutual trust and problem solving described earlier and were content with a general charter and broad guidelines in the Agreement itself. We knew we could work together to fashion specific programs and allocate funds and staff intelligently for these purposes. We also knew that we needed professional help, a dedicated planning group, and we did not want to duplicate existing services. This is why we established a "center" concept with a small staff of professionals experienced in vocational education and training, in career counseling and in job development. We wanted to encourage local union and plant management autonomy and local ownership so that those closest to the situation would be intimately involved. We wanted to serve the needs and desires of individual employes and not impose our own preconceptions. With respect to the dislocated worker, the outcome in less than a year has been six distinct, yet not mutually exclusive, approaches.

Career Day Conferences

The first logical step in our program consists of organizing what we call "Career Day Conferences" to convene groups of laid-off employes to inform them of Program options and available community resources. Typically, these conferences are coordinated by the local EDTP committee, with assistance from National Center representatives, and bring together local community and public service agency representatives to explain appropriate social programs. From January through August 1983, twelve Career Day Conferences have been conducted — nine at local union halls and three on community college campuses — attended by over 5,000 laid-off employes from 17 Company locations (Table I).

Table I: Career Day Conferences
(January - August 1983)

Location/Facilities	Employes Attending	Location/Facilities	Employes Attending
Rouge Area, MI	1,100 600	Lorain Assembly/ Ohio Truck, OH	250
Cleveland Engine Plants/ Cleveland Casting, OH	750	Chicago Stamping, IL	200
Nashville Glass, TN	500	Sheffield Casting, AL	400
Kentucky Truck, KY	500	Twin Cities Assembly, MN	200
Rawsonville/Saline/ Ypsilanti, MI	400	Sandusky, OH	125
		Monroe/Woodhaven, MI	75

Vocational Plans and Interest Surveys

Upon local request, and usually in conjunction with a Career Day Conference, the National Center assists the local EDTP committee in designing and administering a survey instrument to gather information on employe career plans and interests. Such surveys assist individuals in beginning the process of self-evaluation and exploration of alternatives, and, of course, are essential to facilitate and focus the planning of specific local activities. From October 1982 through August 1983, twelve discrete surveys of over 6,000 laid-off employes have been conducted (Table 2).

Table 2: Vocational Plans and Interest Surveys
(October 1982 - August 1983)

Location/Facilities	Employes Participating	Location/Facilities	Employes Participating
Rouge Area, MI	1,300	Sheffield Casting, AL	400
Lorain Assembly/ Ohio Truck, OH	240	Rawsonville/Saline/ Ypsilanti, MI	700
Chicago Stamping, IL	250	Kentucky Truck, KY	460
Nashville Glass, TN	430	Sandusky, OH	100
Twin Cities Assembly, MN	150	San Jose Assembly, CA	1,500
Cleveland Engine Plants/ Cleveland Casting, OH	700	Monroe, MI	56

Career Counseling and Guidance

Career Counseling and Guidance (CCG) programs and projects assist employes in their self-evaluation process by helping formulate specific career goals and plans to attain them. These programs may vary from location to location, but generally consist of four main components: self-awareness, career awareness, career decision-making and career planning. Last year, Macomb Community College in Michigan helped us to conceptually develop some general specifications and guidelines for potential vocational CCG applications. Using these model guidelines, the National Center helps local unions and plant managements obtain the delivery of specific programs from qualified local institutions. Local committees review the proposed content, length, time and place, solicit attendance and evaluate results with professional help. A consultant has been retained to assess local efforts, identify the most promising aspects of a number of our local programs, and recommend changes as warranted. From December 1982 through August 1983, seven joint local committees, with National Center assistance, have initiated Career Counseling and Guidance projects covering more than 1,100 participants (Table 3).

Table 3: Career Counseling and Guidance Projects
(December 1982 - August 1983)

Location/Facilities	Employes Participating	Service Providers
Rouge Area, MI	290	. Wayne State University
	160	. University of Michigan, Employment Trans. Prog.
Lorain Assembly/ Ohio Truck, OH	50	. Lorain County Comm. Col.
Rawsonville/Saline/ Ypsilanti Plants, MI	150	. University of Michigan, Employment Trans. Prog.
	20	. Washtenaw Co. Comm. Col.
Twin Cities Assembly, MN	120	. Inver Hills/Lakewood CC
Nashville Glass, TN	120	. Tennessee Job Service
Sheffield Casting, AL	100	. Alabama State Employment Service
Sandusky, OH	100	. Erie Consortium of Educational Resources

Prepaid Tuition Assistance

A prepaid tuition assistance plan was launched in August 1982. Coverage was broadened in early 1983 and there have been over 3,000 enrollments through August 1983. Briefly, the plan pays tuition and certain fees — up to $1,000 per year for up to four years, depending on seniority — for self-selected education and training. The National Center administers the plan in its entirety — including evaluating applications, responding to applicants, and directly reimbursing schools. Our recent National Center publication, Center Report 3, gives a profile of the first 600 participants under this program and is included as Exhibit II. Table 4 (below) gives highlights of this profile.

Table 4: Highlights from Center Report 3 on Tuition Assistance for Laid-Off UAW-Ford Hourly Employes (April 1983)

The following profile of experience data is based on an analysis of the first 600 laid-off hourly employe applications approved for payment to retraining and other educational institutions under the National Vocational Retraining Assistance Plan (NVRAP). The analysis revealed that a "TYPICAL" EMPLOYE:

- Selected a public community college:
  - Enrolled in a vocational education curriculum involving either technology (such as electronics or robotics) or a business-related area (such as data processing), and
  - Sought a two-year Associate Degree, not just a few courses. (Employes enrolled in one of 35 community colleges, in ten states.)
- Began studies with a relatively heavy workload:
  - Enrolled for almost a full-time load of courses in two-year degree programs.
- Had most of his/her tuition and compulsory fees paid for the first term in school:
  - Received NVRAP assistance for about 95% of such covered expenses,
  - Received little financial aid from other sources, and
  - Probably had certain types of expenses (such as books, tools, supplies, which are not covered under NVRAP.
- Had over seven years of Company seniority as of the last day worked, and thus was potentially eligible for:
  - Two years of NVRAP assistance, and
  - A total amount of $2,000 for an accredited institution.

Targeted Vocational Retraining Projects

Another retraining strategy involves creating what we call Targeted Vocational Retraining Projects (TVR's). These consist of specially designed, full-time, technical or skills-oriented retraining programs for laid-off employes focusing on areas identified as having job prospects or representing future job growth markets. Our initial pilot project, launched in September 1982 at Henry Ford Community College, benefited 72 individuals, including laid-off Ford employes from 15 southeastern Michigan locations and 18 individuals from other companies through joint EDTP and public funding arrangements. Forty-two participants recently graduated, with 18 having found new jobs to date.

Such intensive, full-time retraining is often difficult for the individual in terms of personal sacrifice and dedication — and there is no "stipend" provided during retraining — and is expensive to deliver — frequently in the range of $3,000 to $5,000 per person. These are "custom-designed" programs. National Center professional staff evaluate labor market prospects in conjunction with government sources, and obtain detailed project proposals from educational and training institutions to assure quality as to content and to monitor effective delivery. Each program also includes a full complement of assessment, counseling, job search preparation and placement services, and project evaluation. TVR projects have been initiated in cooperation with local training providers enrolling a total of some 400 individuals to date. TVR's currently sponsored by the National Center cover over 300 laid-off employes at five locations (Table 5).

Table 5: Targeted Vocational Retraining (TVR) Projects
(Current as of September 1983)

TVR Location/Service Provider	Type of Training
Sheffield, Alabama Muscle Shoals State Tech. College and Alabama Ind. Dev. Dept.	. Computer Num. Control (10 weeks) . Prog. Logic Control (1 week)
Muscle Shoals State Tech. College	. Welding (54 weeks) . Small Engine Repair (33 weeks) . Electricity/Electronics (22 weeks) . Air Conditioning/Refrigeration (22 weeks) . Machine Shop (4 weeks)
San Jose, California Foothill-DeAnza Comm. College	. Machine Tool Technology (16 weeks)
Microwave Training Institute	. Microwave Tech. Training (40 weeks)
Center for Employment and Training	. Auto Service Technician (35 weeks)
Superior Training Institute	. Semi-Truck Driving (4 weeks) . Heavy Equip. Operator (6 weeks)
Total Training Institute	. Comp. Repair and Maint. (33 weeks) . (Plus Others TBD)
Rouge Area, Michigan Highland Park Comm. College	. Licensed Prac. Nursing (52 weeks)
Nashville, Tennessee Nashville School of Broadcast Technique	. Video Prod. Tech. (14 weeks)
Macomb County Area, Michigan Macomb County Comm. College	. Auto Body Division (52 weeks) . Electrical Engr. Tech. (52 weeks) . Robotics Technology (52 weeks)

Job Search Skills Training

For various reasons many individuals neither need nor want retraining and are interested principally in job search assistance for employment consistent with their background and experience. Job Search Skills (JSS) Workshops provide laid-off employes professional job search assistance that supplements the basic state employment service and employment search orientation sessions normally available. The workshops include provision of labor market information, development of job seeking support systems, resumes and interviewing skills. JSS training may vary from about a week to more extended programs that include "job club" support techniques. From December 1982 through August 1983, special job search skills workshops were attended by over 800 laid-off employes at eight locations (Table 6).

Table 6: Job Search Skills Training
(December 1982 - August 1983)

Locations/Facilities	Employes Attending	Service Providers
San Jose Assembly, CA	220	. California Employment Development Department
Detroit Area, MI	15 50	. Career Works, Inc. . Jewish Vocational Service
Rawsonville/Saline/ Ypsilanti Plants, MI	150 20	. University of Michigan, Employment Trans. Prog. . Washtenaw Comm. College
Twin Cities Assembly, MN	120	. Inver Hills/Lakewood CC
Sheffield Casting, AL	100	. Muscle Shoals Area Adult and Comm. Ed. Program
Rouge Area, MI	160	. University of Michigan Employment Trans. Prog.

SPECIAL NATIONAL CENTER ASSISTANCE FOR PLANT CLOSINGS

I have mixed feelings as I discuss this next item. I'm proud of what has been accomplished in establishing and implementing comprehensive, integrated and intensive action plans for our recent San Jose, California, and Sheffield, Alabama, plant closings — action plans that include all of the programs I've just mentioned and more — but obviously, I would much prefer to talk about opening new plants, returning employes to work and hiring new employes.

Assistance for our employes displaced by plant closings in terms of income support, other benefits and intra-Company placement considerations traditionally has been a provision of our Collective Bargaining Agreement and has been administered locally. Now, the EDTP and the National Center provide special assistance to the local parties with respect to career guidance, outside job search and retraining matters. The National Center, through on-site consultation and liaison with governmental and community agencies, has assisted the San Jose and Sheffield plants in the design of their approaches. Exhibit III graphically displays how all of these EDTP elements come together in a sample local program design for laid-off employes.

In addition to directly funding particular features of local action plans, the EDTP Program has been beneficial in allowing us to join forces with external resources. The Program and the National Center have helped local unions and managements obtain assistance under the Job Training Partnership Act and other federal and state dislocated employe and training assistance provisions. External commitments for monetary and in-kind service contributions of some $3 million have been received either through action of the Center directly or through local parties with Center assistance. More than $2.8 million of these funds are slated for San Jose and Sheffield.

The local EDTP Committee at San Jose has aggressively pursued a full range of assistance programs for laid-off employes. By now, every employe at San Jose has had the opportunity to participate in at least one education, retraining or counseling activity — and many have participated in more. Exhibit IV, attached, provides details of our San Jose experience. At our Sheffield plant a full service Reemployment Assistance Center (RAC) has been established at the local UAW union hall. A number of employe development actions and training programs are currently operational and others are in the planning stages (see Exhibit V, attached).

FOCUS ON THE INDIVIDUAL

Hopefully this recital up to now of program configurations and statistics has not obscured the real focus of all this activity — the individual laid-off worker. We believe that none of what we are trying to do makes much sense if it does not contribute directly or indirectly, immediately or long-term, to enhancement of an individual's personal and work life. The basic goal of the dislocated worker is reemployment. But, not just any employment. Dislocated workers, especially, may feel the system has let them down. They want a quality job — one with dignity — one that will last. Whatever contributes to achieving these goals has some utility. Retraining and related activities focus on individual qualifications, and consequently we have found that we must be very careful of the human needs and expectations that we deal with, and we must be realistic about the limits of such programs in times and places of very high unemployment.

Our Program intake rates are quite high, we understand, compared to similar programs. This is attributable in my mind to the joint Company and Union concentration of purpose, the dedication of our national and local management, union representatives and our professional staff, as well as our working with local community resources. Yet, perhaps no more than 10-40% of an eligible population will be impacted by these services. Our intake is generally higher in terms of counseling and job search assistance (e.g., 40-50%) and less in terms of lengthy or difficult vocational retraining (e.g., 10-15%). The percentages, as expected, are normally higher in plant closing situations where employes recognize clearly that there is no prospect of reemployment at their former facility. Utilization is obviously dependent on the extent of employment opportunities and the level and type of unemployment in a particular labor market. Utilization also is influenced by attained skills levels, by personal mobility, by family obligations and income availability, by individual characteristics, by the time and effort necessary to upgrade skills, by an individual's vision of the short-term versus the long-term in areas of great uncertainty, and by a host of other factors that have been discussed in pertinent literature and that are borne out by experience.

In other words, retraining and related support is not a full plate. It is only one part of the menu. Even where it is practical, retraining and related support will be only part of the solution. This is not to suggest that training and support activities are not important. Indeed, they are. But, a sense of perspective is necessary to avoid false promises and false routes, and to promote success within the limits of what can be accomplished.

In our case, we will measure success by a number of indicators: ultimate jobs secured, the quality of jobs, duration in new employment, speed of re-entry, training entered and completed, participant testimony and independent evaluation. But perhaps the key measure of success should be expressed in less statistical and more human qualities — the sense of accomplishment in attaining new skills and reemployment, the thanks and hope of individuals and families rekindled in themselves, in their society, and in their institutions. That, more than anything else, is what our Program is all about.

FUTURE PLANS

With respect to assisting the dislocated worker, we plan to intensify program availability in all the communities in which we operate. My own guess is that utilization could double in the next year. We also will be striving to improve the quality of the various approaches, develop new ones where needed, enlarge the network of community and educational interactions and arrange for an evaluation of the total effort by outside observers.

We will be extending our development activities with our active work force, both to build up skills to meet Company needs as well as those that may be useful in the economy at large. Here again we will focus more on what individuals want and not on what we think they should want. We will be operating participatively through local committees and will involve local institutions as appropriate. One interesting pilot project currently being launched is an adult basic skills enhancement program (reading, math, listening skills, etc.) developed with the Dearborn, Michigan, public school system and a private firm using competency-based approaches.

THE UAW-FORD MODEL

The UAW-Ford Employe Development and Training Program is clearly new ground in collective bargaining. It is new in terms of:

- The people it services — not only active workers, but laid-off workers — many with little or no prospect of reemployment with the Company.
- Its structure — a jointly-governed National Center with a qualified professional staff to develop and nurture program goals, and instill a sense of immediacy and urgency to move, but only as local committees and laid-off employes voluntarily agree.

- Its focus — on local programs initiated and administered by local union and plant management leaders, the people who are closest to the human problems and who have an emotional and organizational stake in the outcome.

- Its outreach to the community — seeking the assistance of available educational and other community resources in delivering high quality training and development services.

While the Program already has proven to be of value to dislocated employes and no doubt will continue to be in the years ahead, it also represents a unique and valuable contribution to labor-management cooperation and joint endeavors where there is clear mutual interest. Local union and management leadership are key elements of our Program. The people at the plant level are the joint initiators and the catalyst for designing and implementing the programs that they want and need at their locations. Their responsibilities extend beyond adaptation of national parameters. Local interests, suggestions, needs assessments and diagnoses form the bases for free-flow exchange between the local parties and the National Center.

The incorporation of the National Center as a separate legal entity and its joint Governing Body have a decidedly "new" flavor. Unlike most other programs and bargained joint boards, the Governing Body exercises considerable judgment within the general parameters of its charter; it can freely establish specific plans and programs, modify them, abolish them and reallocate funds from one approach to another depending on need and circumstance; and it can make exceptions and interpretations and need not be bound by old and inapplicable provisions.

The programs (discussed earlier in this testimony) which are now in place, were never stipulated as such in our Agreement with the UAW that established the Employe Development and Training Program. They were fashioned jointly after the negotiations, after a review of problems and opportunities, within a general fund, with a variety of needs and constituencies to be serviced, without imposed deadlines, with self-chosen targets, and with full prior recognition that not every employe, union or Company interest could be fully satisfied.

Can this Program be a pattern for other companies and other unions, and for other industries? Yes, and no. They will have to answer that for themselves. Some companies have large numbers of unions representing their employes, and some have no representation. Some are in entirely different businesses. Skills, basic competencies and individual possibilities cover a wide spectrum. Obviously, the UAW-Ford approach is rooted in our own specific experience and circumstance. Each company and each union will have to assess where they are, and where they might be able to go. This is not the kind of approach that can be stenciled. It permits and fosters change and does not just react to it. Indeed, Ford and the UAW themselves may not fully realize their expectations and their goals. Economic forces, in particular, may be a limiting factor.

Certainly much can be learned from any approach. We have studied others and have learned from them. We are willing to share our views and experiences. Our whole approach may not be germane, but some portions may be adaptable. And the spirit certainly is.

CONCLUDING OBSERVATIONS

I have concentrated on describing the Ford-UAW approach to assisting the dislocated worker with respect to retraining and reemployment services. Many of our program features are not unique or unusual, of course, but we believe we have taken a new approach in the overall packaging, the spirit, the caring, and the delivery.

Beyond this, of course, there are broader issues relating to employment creation, taxation, and other public policy approaches intended to promote a healthy, prosperous and dynamic economy. In a full employment situation, the content of our approach and of measures such as the Job Training Partnership Act would no doubt have a different focus. And if jobs went begging because of a dearth of skills, entirely different measures and incentives would be needed. Experience over the past year or two suggests that even if all our displaced employes had advanced degrees, many of them would not have found qualifying employment.

Despite what some advocates may otherwise imply, the plain truth is that job availability is a far more critical factor than retraining for ameliorating the current social problem of worker dislocation. True, training has a place, and we should and will continue to do what we can to assist willing individuals along the painful path of job transition. Though the entire structural unemployment problem cannot be solved simply by retraining and related services, much good can be done and many individuals can be helped. We therefore should not be deterred because we have not found a universal solution. I submit that we never will, and that we had better concentrate on doing what we can. Retraining may not be a full answer in a depressed economy, but it has an importance in its own right.

Douglas Fraser, recent retired president of the UAW, summed it up very well last year when we broke ground for the National Center:

> "Two or three years ago I wouldn't have thought this . . . could be possible, but you learn from adversity; you learn from the difficult times you go through, and in the long run that's going to benefit everyone.
>
> "There's a lot of frustration, despair and suffering out there by the unemployed people . . . a lot of agony. . . . Maybe you have to experience it or be close enough to feel it to really understand unemployment. . . . It occurs to me. . .that, had we had this program in place a few years ago, we might not have eliminated the suffering and agony, but we certainly would have eased it."

Before closing I would like to cite a few remarks by former Secretary of Labor John T. Dunlop at a national conference of Ford management and UAW leadership last September:

> "I've always thought training to be one of the untapped, unworked areas of labor-management relationships, and I am pleased that you are pioneering this joint committee in that particular way . . . .
>
> "Training is vital to our country. We talk glibly about revitalizing the American economy, about reindustrializing Americans, and yet the need to develop the human factor, at a whole series of levels, from the lowest through the managerial skills, is clearly one of the essential problems of our time.
>
> ". . . What you are doing, particularly in the training area, constitutes an important experiment and an important work which will be of enormous interest . . .to other labor and management people and to public policy."

Clearly, we must not, despite the problems and the uneven prospects, let up in any way in our efforts to help those who may benefit from such help and who are able and willing to help themselves. We must exercise a healthy realism, but one enlarged by constructive optimism. Together, we can make useful progress.

EXHIBIT I

1982 UAW-Ford Documents establishing the

UAW-Ford Employe Development and Training Program and its National Development and Training Center

Introduction

During the 1982 UAW-Ford National Negotiations the Company and Union agreed to a new joint venture ... a venture to be revolutionary in scope, dynamic in character, responsive to the personal and career needs of UAW-represented hourly employes of Ford Motor Company and beneficial to the mutual goals of greater job security and increased competitiveness.

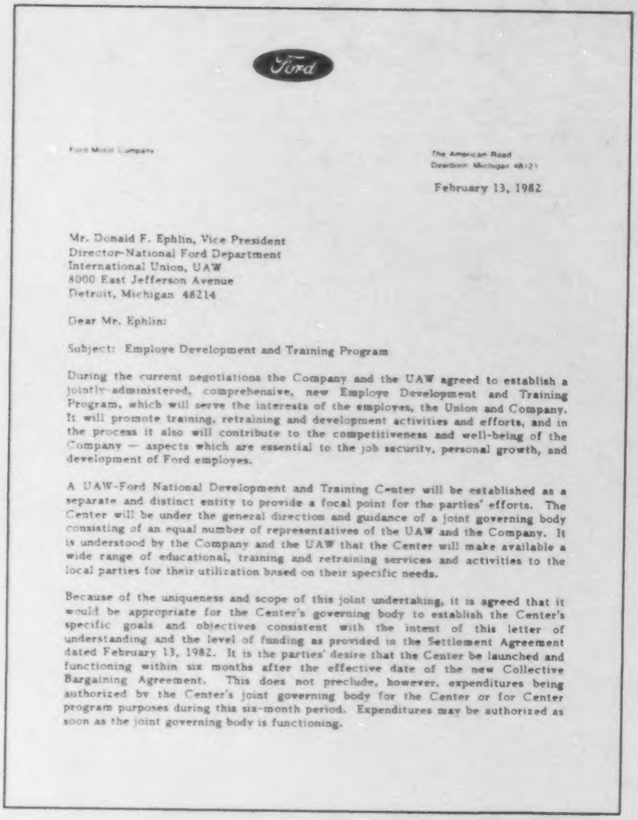
The basic documents that launched this venture are reproduced here for information purposes. They include the full Letter of Understanding which established the Employe Development and Training Program and the jointly administered National Development and Training Center; the attachment to that letter; and a related excerpt from the 1982 Settlement Agreement which details the funding arrangements for the Program, the Center and its activities.

Issued by
UAW-Ford National Development and Training Center

Joint Governing Body

Donald F. Ephlin Union Co-Chairman	Peter J. Pestillo Company Co-Chairman
Dan Forchione	John E. Reese
E. C. Hendricks	Ernest J. Savoie

Letter of Understanding



Ford Motor Company

The American Road
Dearborn, Michigan 48121

February 13, 1982

Mr. Donald F. Ephlin, Vice President
Director–National Ford Department
International Union, UAW
8000 East Jefferson Avenue
Detroit, Michigan 48214

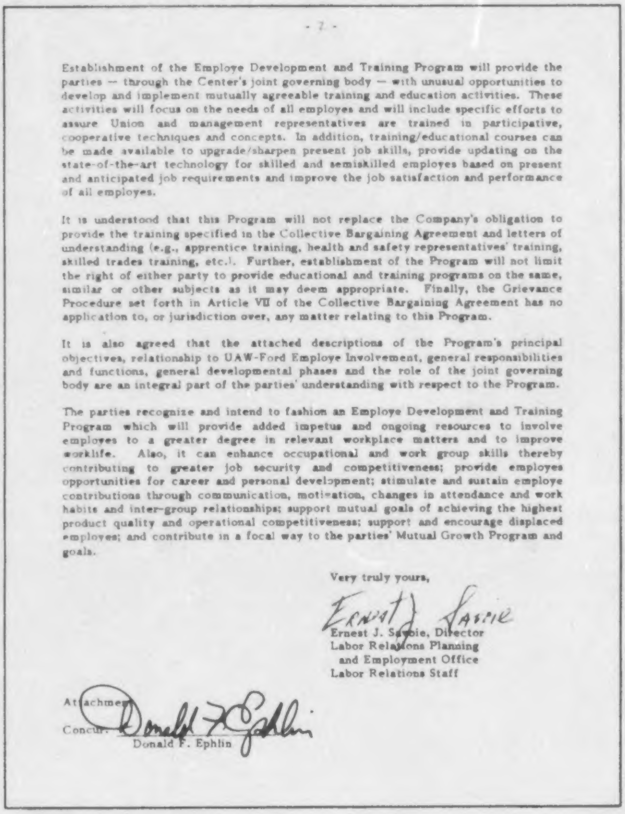
Dear Mr. Ephlin:

Subject: Employe Development and Training Program

During the current negotiations the Company and the UAW agreed to establish a jointly-administered, comprehensive, new Employe Development and Training Program, which will serve the interests of the employes, the Union and Company. It will promote training, retraining and development activities and efforts, and in the process it also will contribute to the competitiveness and well-being of the Company — aspects which are essential to the job security, personal growth, and development of Ford employes.

A UAW-Ford National Development and Training Center will be established as a separate and distinct entity to provide a focal point for the parties' efforts. The Center will be under the general direction and guidance of a joint governing body consisting of an equal number of representatives of the UAW and the Company. It is understood by the Company and the UAW that the Center will make available a wide range of educational, training and retraining services and activities to the local parties for their utilization based on their specific needs.

Because of the uniqueness and scope of this joint undertaking, it is agreed that it would be appropriate for the Center's governing body to establish the Center's specific goals and objectives consistent with the intent of this letter of understanding and the level of funding as provided in the Settlement Agreement dated February 13, 1982. It is the parties' desire that the Center be launched and functioning within six months after the effective date of the new Collective Bargaining Agreement. This does not preclude, however, expenditures being authorized by the Center's joint governing body for the Center or for Center program purposes during this six-month period. Expenditures may be authorized as soon as the joint governing body is functioning.



Establishment of the Employe Development and Training Program will provide the parties — through the Center's joint governing body — with unusual opportunities to develop and implement mutually agreeable training and education activities. These activities will focus on the needs of all employes and will include specific efforts to assure Union and management representatives are trained in participative, cooperative techniques and concepts. In addition, training/educational courses can be made available to upgrade/sharpen present job skills, provide updating on the state-of-the-art technology for skilled and semiskilled employes based on present and anticipated job requirements and improve the job satisfaction and performance of all employes.

It is understood that this Program will not replace the Company's obligation to provide the training specified in the Collective Bargaining Agreement and letters of understanding (e.g., apprentice training, health and safety representatives' training, skilled trades training, etc.). Further, establishment of the Program will not limit the right of either party to provide educational and training programs on the same, similar or other subjects as it may deem appropriate. Finally, the Grievance Procedure set forth in Article VII of the Collective Bargaining Agreement has no application to, or jurisdiction over, any matter relating to this Program.

It is also agreed that the attached descriptions of the Program's principal objectives, relationship to UAW-Ford Employe Involvement, general responsibilities and functions, general developmental phases and the role of the joint governing body are an integral part of the parties' understanding with respect to the Program.

The parties recognize and intend to fashion an Employe Development and Training Program which will provide added impetus and ongoing resources to involve employes to a greater degree in relevant workplace matters and to improve worklife. Also, it can enhance occupational and work group skills thereby contributing to greater job security and competitiveness; provide employes opportunities for career and personal development; stimulate and sustain employe contributions through communication, motivation, changes in attendance and work habits and inter-group relationships; support mutual goals of achieving the highest product quality and operational competitiveness; support and encourage displaced employes; and contribute in a focal way to the parties' Mutual Growth Program and goals.

Very truly yours,

Ernest J. Savoie

Ernest J. Savoie, Director
Labor Relations Planning
and Employment Office
Labor Relations Staff

Attachment

Concur: Donald F. Ephlin
Donald F. Ephlin

Attachment*

EMPLOYE DEVELOPMENT AND TRAINING PROGRAM

The following generally describe the Employe Development and Training Program's principal objectives, relationship to UAW-Ford Employe Involvement, general responsibilities and functions, general development phases and the role of the joint governing body. These descriptions are intended to be illustrative and not necessarily all-inclusive. They may be revised, added to or otherwise modified as the joint governing body may mutually agree.

PRINCIPAL OBJECTIVES

- o Provide individual and group training, retraining and developmental opportunities to enhance the dignity and on-the-job skills and abilities of employes which can lead to greater job security and personal development.
- o Seek ways of arranging (and, in some cases, providing) for training, retraining and development assistance for employes displaced by new technologies, new production techniques and shifts in customer product preference. Similar efforts would be undertaken for employes displaced as a result of facility closings or discontinuances of operations.
- o Energize, sustain and support local and national Employe Involvement efforts under the UAW-Ford Employe Involvement process. Provide research and studies in new techniques and methods to further Employe Involvement and other cooperative efforts between the Company and the UAW.
- o Provide opportunities for the exchange of ideas and innovations with respect to employe development and training needs within the framework of job requirements and union/management relations.

RELATIONSHIP TO EMPLOYE INVOLVEMENT (EI)

In fulfilling its responsibility to provide developmental opportunities to enhance the skills and personal development of all interested employes, the Center will work closely with the National Joint Committee on Employe Involvement (NJCEI) to help (1) plan new EI concepts and approaches, (2) develop new techniques and pilot projects, and (3) arrange for and provide other services and assistance requested by local joint EI steering committees. With respect to the UAW-Ford EI process, the Center will accept direction and guidance from the NJCEI and will consult with it regularly. The Center may sponsor periodic EI conferences and seminars to facilitate the exchange of experiences and information to assure continued growth and expansion of the EI process.

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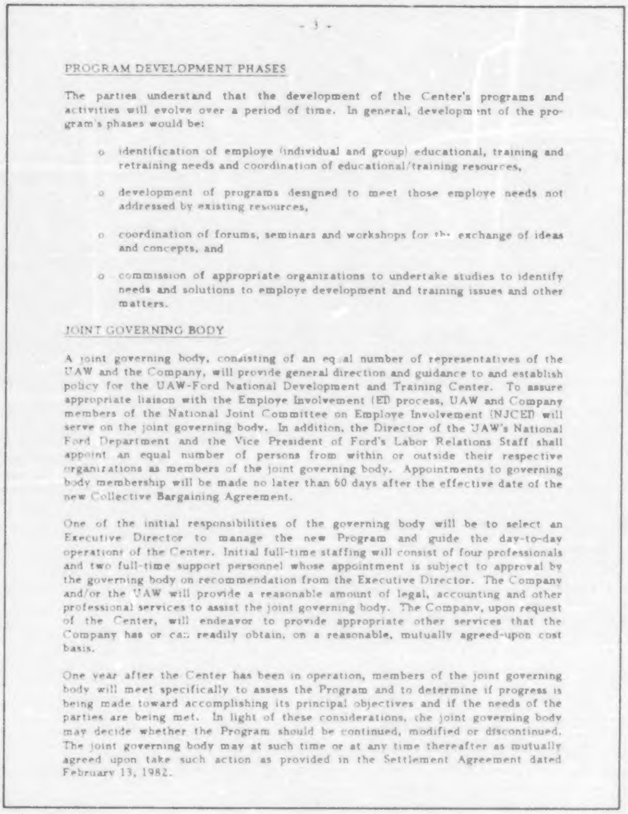
* Attachment to Letter of Understanding on the Employe Development and Training Program dated February 13, 1982.

RESPONSIBILITIES AND FUNCTIONS OF THE NATIONAL CENTER

While various administrative, procedural and eligibility details of the Employe Development and Training Program will be resolved by the Center's joint governing body, the Program's efforts and resources should take into consideration:

- identifying education, training and retraining needs (including updating on state-of-the-art technology for skilled and semiskilled employes) for both active and displaced employes by utilizing various sources such as operating components, local unions, studies, surveys, research and employes themselves;
- identifying existing educational resources, publicizing them to meet employe needs and encouraging employe participation;
- coordinating use of existing resources within the Company and the UAW to assist, where feasible, in meeting employe educational/training needs;
- providing local on-site classroom training and outside consulting services, training trainers, etc., (where needs cannot be met through existing internal and external resources) to deliver required training;
- determining the level and type of educational,training and retraining assistance that is available and may be provided to displaced employes, including financial aid to cover in whole or in part tuition costs and fees for courses/classes that contribute directly to enhancing the employability of such employes;
- maintaining contact with Company and UAW field organizations to provide visibility for the Program and promote participation;
- promoting and publicizing the parties' training/educational activities to encourage similar constructive undertakings that are clearly in the interest of the private sector as well as the public sector;
- inviting high-level academic, professional, government, labor and industry representatives to conduct/participate in national and local conferences for Union, management and employes related to the Program's objectives;
- commissioning studies and research activities (both internally and by outsiders) on topics of mutual interest and importance to the parties, including those identified by the National Mutual Growth Forum;
- sponsoring international, national, regional and local conferences, workshops, meetings and seminars to promote joint cooperative efforts and related subjects;
- serving in an advisory capacity to those locations which may be interested in setting up their own training centers; and
- establishing public advisory committees to provide assistance and counsel to the joint governing body.



PROGRAM DEVELOPMENT PHASES

The parties understand that the development of the Center's programs and activities will evolve over a period of time. In general, development of the program's phases would be:

- identification of employe (individual and group) educational, training and retraining needs and coordination of educational/training resources,
- development of programs designed to meet those employe needs not addressed by existing resources,
- coordination of forums, seminars and workshops for the exchange of ideas and concepts, and
- commission of appropriate organizations to undertake studies to identify needs and solutions to employe development and training issues and other matters.

JOINT GOVERNING BODY

A joint governing body, consisting of an equal number of representatives of the UAW and the Company, will provide general direction and guidance to and establish policy for the UAW-Ford National Development and Training Center. To assure appropriate liaison with the Employe Involvement (EI) process, UAW and Company members of the National Joint Committee on Employe Involvement (NJCEI) will serve on the joint governing body. In addition, the Director of the UAW's National Ford Department and the Vice President of Ford's Labor Relations Staff shall appoint an equal number of persons from within or outside their respective organizations as members of the joint governing body. Appointments to governing body membership will be made no later than 60 days after the effective date of the new Collective Bargaining Agreement.

One of the initial responsibilities of the governing body will be to select an Executive Director to manage the new Program and guide the day-to-day operations of the Center. Initial full-time staffing will consist of four professionals and two full-time support personnel whose appointment is subject to approval by the governing body on recommendation from the Executive Director. The Company and/or the UAW will provide a reasonable amount of legal, accounting and other professional services to assist the joint governing body. The Company, upon request of the Center, will endeavor to provide appropriate other services that the Company has or can readily obtain, on a reasonable, mutually agreed-upon cost basis.

One year after the Center has been in operation, members of the joint governing body will meet specifically to assess the Program and to determine if progress is being made toward accomplishing its principal objectives and if the needs of the parties are being met. In light of these considerations, the joint governing body may decide whether the Program should be continued, modified or discontinued. The joint governing body may at such time or at any time thereafter as mutually agreed upon take such action as provided in the Settlement Agreement dated February 13, 1982.

Settlement Agreement Excerpt

Employe Development and Training Program

In connection with the new Employe Development and Training Program as established in the attached letter of understanding, the Company will make available funds equivalent to five cents (5¢) per hour worked commencing with the Effective Date of the new Collective Bargaining Agreement to fund the Program, the UAW-Ford National Development and Training Center and its activities. These funds shall be booked at the end of each closed roll month in an account designated for the Program, the Center and its activities. The Center's joint governing body (or its designated representative) may authorize and approve expenditures and receive the necessary funds to be billed to this account. It is also agreed that costs for services provided by UAW and Company representatives will be included as expenditures of the Center at a rate agreed upon by the joint governing body.

To assure adequate funds are available to permit prompt implementation of the Program, the Center and its activities, it is agreed the Company will advance to the Program's account an amount equivalent to the monies that it estimates would be booked during the first three months of the Program's operation. It is understood this amount is an advance and does not constitute or represent any payment or commitment to make any payment by the Company to the Program's account over and above the monies generated by the above agreed-upon formula. The three-month advance will be repaid during the first 12 months of the Program's operation by offsetting one-ninth (1/9) of the total advanced amount each month commencing with the fourth month after the date of the advance.

In the event the Company and the UAW, directly or through the joint governing body, should agree to discontinue, in whole or in part, the Program at the expiration date of the new Collective Bargaining Agreement or prior thereto, they shall meet to terminate the Program, the Center and any or all of its activities. After all outstanding claims to monies in the account have been settled (including the amount advanced by the Company described above, if not repaid at the time of the Program's termination), any monies remaining in the Program's account shall be disposed of in such a manner as the parties shall agree at the time of the Program's termination. After disposing of funds booked to the account, any other monies that the agreed-upon formula in the first paragraph above would have produced during the remaining life of the new Collective Bargaining Agreement also shall be disposed of as determined by the parties at the time of the Program's termination.

Jointly Dedicated to Human Growth and Understanding

September, 1982

EXHIBIT II

Tuition Assistance for
Laid-Off UAW-Ford Hourly Employes:

The First 600 Payments . . . A Profile of Experience under the National Vocational Retraining Assistance Plan

CENTER REPORT 3

A UAW-Ford National Development
and Training Center Publication

Tuition assistance is an important feature of the UAW-Ford programs designed to help laid off employes. One of these programs is the the National Vocational Retraining Assistance Plan for certain employes on indefinite layoff. The Plan helps such individuals pursue self-selected formal education or retraining to increase their chances for reemployment and build future careers.

This Center Report presents a profile of initial experience with the National Vocational Retraining Assistance Plan which was launched in August 1982 under the sponsorship of the UAW-Ford National Development and Training Center. The report is based on a study of the first 600 applications approved for payment under the Plan during the first few months of its existence.

The report was prepared by Professor Richard A. Hayes who teaches at Macomb Community College in Michigan and is also an independent consultant. He has had experience in the automobile industry as well as in colleges emphasizing vocational education.

The study reveals that the employes on layoff who participated in the Plan selected a wide range of education and retraining options, but they strongly preferred two-year vocational education programs offered by local community colleges and technical institutes. These employes tended to select a full-time load of college courses, with the Plan paying for about 95 percent of tuition and compulsory fees.

The study concludes that the Plan is working out very well. The study also suggests that the employes now participating in the Plan have a serious intent and a strong motivation to learn. Although this couldn't be quantified or measured with precision, it was evident from not only the number and type of vocational courses selected by the participants but also from the reasons for retraining which they gave on their applications for the Plan.

This experience is only a beginning. We expect many more applications as employes on layoff become more aware of the Plan, including those who now are newly eligible as a result of its recent improvements and extension of coverage. The Governing Body encourages local unions and managements in their efforts to increase employe awareness and interest in the Plan. Not only this study but also letters from employes indicate the Plan can provide significant help in addressing the needs of UAW-represented Ford employes on layoff.

JOINT GOVERNING BODY
UAW-FORD NATIONAL DEVELOPMENT AND TRAINING CENTER

Donald F Ephlin

Donald F. Ephlin
Union Co-Chairman
Dan Forchione
Elvin C. Hendricks

Peter J. Pestillo
Company Co-Chairman
John E. Reese
Ernest J. Savoie

Tuition Assistance For UAW-Ford Laid-Off Employes

THE
NATIONAL VOCATIONAL RETRAINING ASSISTANCE PLAN

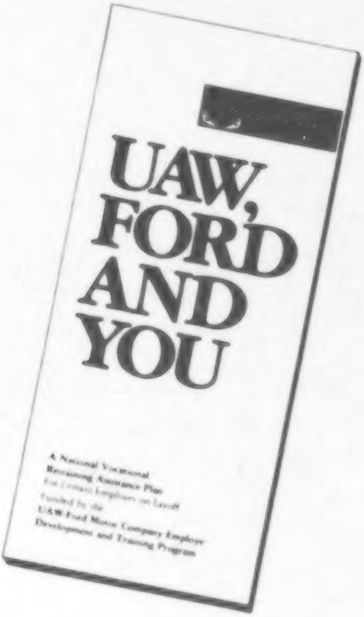
- **The First 600 Payments**
- **A Profile of Experience Data**

This report is based on an analysis of the first 600 employe applications approved for payment under the National Vocational Retraining Assistance Plan. It was prepared by Richard A. Hayes, consultant and Professor of Business at Macomb Community College, Mt. Clemens, Michigan

Andrew A. Mazzara, Ph.D.

Executive Director
UAW-Ford National Development and Training Center

The details of the UAW-Ford tuition assistance plan for laid-off hourly employes are contained in the pamphlet:



UAW, FORD AND YOU

A National Vocational
Retraining Assistance Plan
For Certain Employes on Layoff
Funded by the
UAW-Ford Motor Company Employe
Development and Training Program

A copy of this pamphlet was mailed by the National Development and Training Center to each eligible employe. Additional copies may be obtained from Ford UAW local unions, local Ford facilities, or from the National Center.

NVRAP prepays tuition and compulsory fees of up to $500 per year for any approved educational courses and up to $1,000 per year for courses at an accredited college.

UAW-FORD
NATIONAL VOCATIONAL RETRAINING ASSISTANCE PLAN (NVRAP)

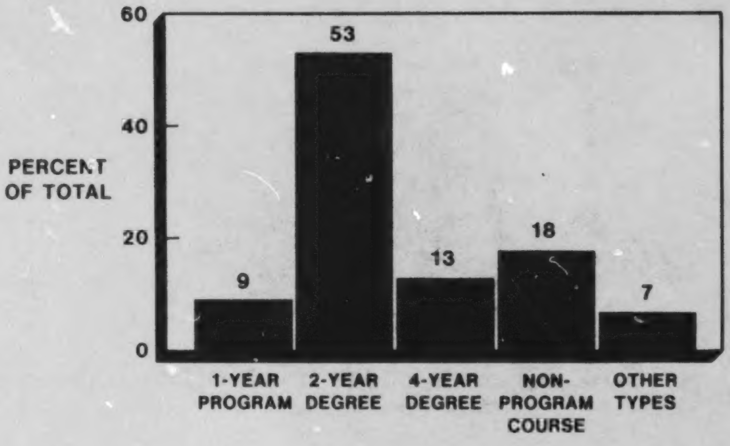
The First 600 Payments

A Profile of Experience Data

The following profile is based on an analysis of the first 600 laid-off hourly employe applications approved for payment to retraining and other educational institutions under the NVRAP. The analysis revealed that a "TYPICAL" EMPLOYE:

- Selected a public community college:
  - Enrolled in a vocational education curriculum involving either technology (such as electronics or robotics) or a business-related area (such as data processing), and
  - Sought a two-year Associate Degree, not just a few courses. (Employes enrolled in one of 35 community colleges, in ten states.)
- Began studies with a relatively heavy workload:
  - Enrolled for almost a full-time load of courses in two-year degree programs.
- Had most of his/her tuition and compulsory fees paid for the first term in school:
  - Received NVRAP assistance for about 95% of such covered expenses,
  - Received little financial aid from other sources, and
  - Probably had certain types of expenses (such as books, tools, supplies) which are not covered under NVRAP.
- Had over seven years of Company seniority as of the last day worked, and thus was potentially eligible for:
  - Two years of NVRAP assistance, and
  - A total amount of $2,000 for an accredited institution.

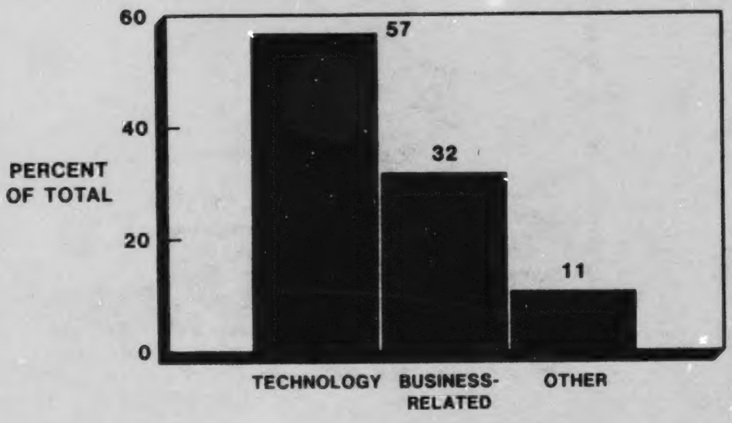
    Note: See the schedule on page 8 for the maximum amount and duration of covered payments.



TYPE OF PROGRAM

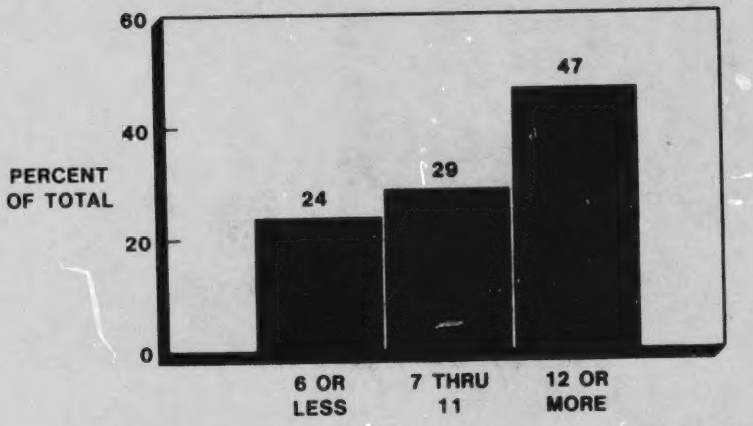
- Retraining and other educational programs selected by employes covered a wide range.
  - There was a preference among the majority (53%) of employes for two-year vocational education degree programs (almost all at community colleges) -- much larger than the 13% of employes who selected four-year college and university degree programs.
  - 9% selected one-year vocational education programs (almost all at private trade schools, many of which award certificates).
  - 18% chose non-program courses (e.g., such as truck driving).
  - The remaining 7% of employes chose a variety of other options.
- Payments were approved for a total of 35 public community colleges, of which 12 are in Michigan and 23 in other states.

TYPE OF CURRICULUM
SELECTED IN TWO-YEAR DEGREE PROGRAMS



- The above data are for payments approved for employes who selected two-year vocational education degree programs.
  - -- Well over half (57%), chose electronics, robotics or other technology-related curricula.
  - -- Almost a third (32%) selected data processing or other business-related curricula.
  - -- The remaining 11% chose allied health or other curricula.
- By comparison (although not shown above), payments approved for employes who selected four-year degree programs included:
  - -- Almost a third (32%) in business-related curricula,
  - -- Almost a quarter (24%) in engineering or natural sciences, and
  - -- The remaining 44% in a wide variety of other curricula.

CREDIT HOURS SELECTED
ALL COLLEGES



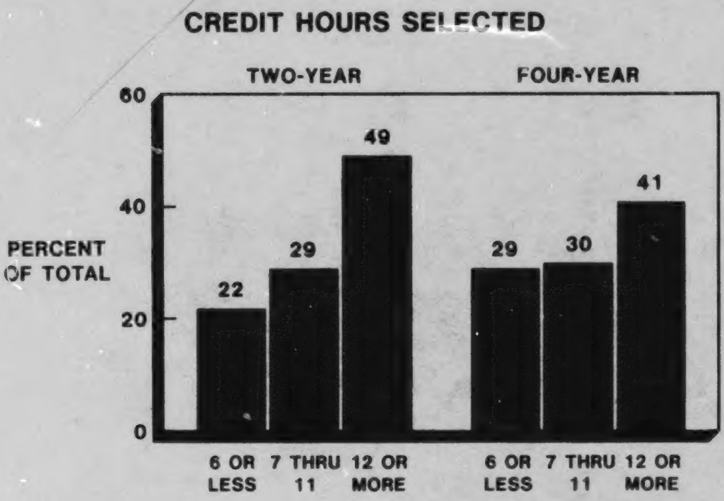
o Employes began their college studies with rather heavy workloads -- particularly noteworthy because most of them were entering college for the first time.

o Based on the number of credit hours (units used by colleges to measure student workload):

-- Almost half (47%) started out with a full-time load of courses (12 or more credit hours), and

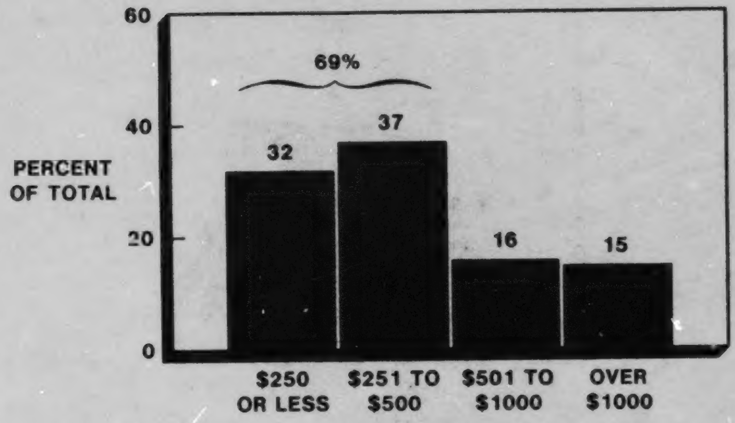
-- Almost a quarter (24%) of employes enrolled for six or fewer credit hours.

o Although not shown above, the average number of credit hours was 11, and some employes enrolled for more than 20 credit hours.



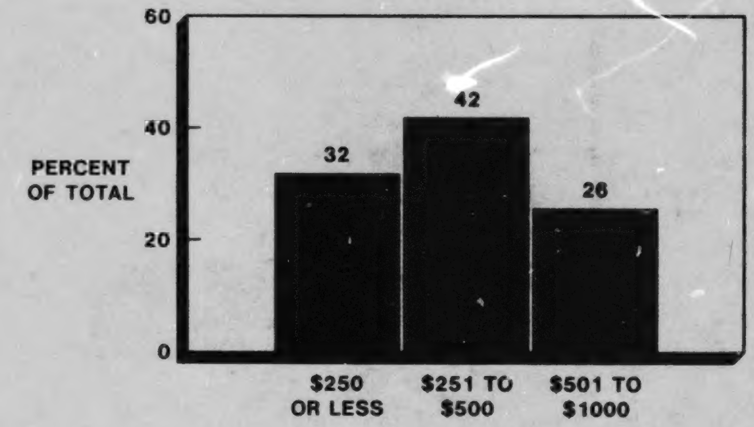
- o Employes who selected two-year vocational education degree programs began their college studies in an especially ambitious manner.
  - -- 49% enrolled for a full-time load of courses (12 or more credit hours), compared to 41% of the employes who selected four-year degree programs.
  - -- 22% started out with six or fewer credit hours, compared to 29% of the employes who chose four-year degree programs.
  - -- 29% enrolled for at least seven, but less than twelve, credit hours -- almost the same as among employes who had selected four-year programs.

TUITION AND COMPULSORY FEES



- o Over two-thirds (69%) of employes reported tuition and compulsory fees of $500 or less.
    - -- Tuition is often less in community colleges than in other collegiate institutions. This affects the data that are reported. By selecting community colleges, most employes may get payment in full for expenses covered by the Plan.
- o Almost one-third (31%) reported tuition and compulsory fees of more than $500, as follows:
    - -- 16% reporting $501 to $1,000.
    - -- 15% reporting more than $1,000.
- o Although not shown above:
    - -- The median cost of tuition and compulsory fees was about $350, and the average was close to $400.
    - -- Few employes received educational financial aid from other sources.

PAYMENTS TO SCHOOLS AND COLLEGES



o With respect to approved payments to schools for tuition and compulsory fees reported thus far by employes:

- -- 74% were for $500 or less, and
- -- 26% were for $501 to $1,000.

o Although not shown above:

- -- The average payment approved thus far was about $380.
- -- The Plan covered approximately 95% of the average cost of tuition and compulsory fees as reported by employes.
- -- Approved payments covered the full cost of these items in almost four-fifths of the cases.

o The Plan does not cover expenses involving books and supplies, transportation and parking, meals and personal items.

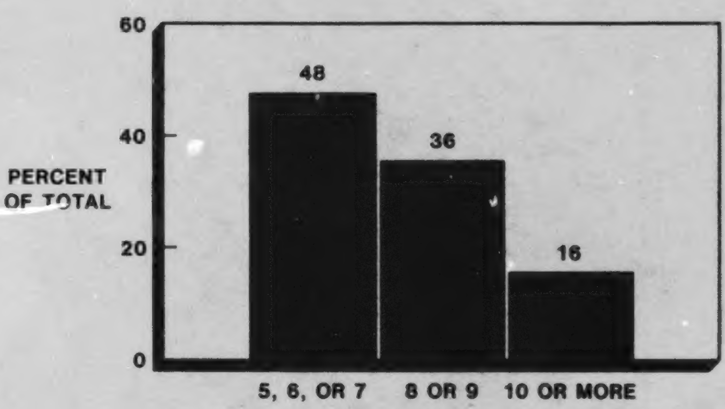
DURATION OF PAYMENTS

YEARS OF COMPANY SENIORITY	YEARS OF RETRAINING ASSISTANCE	MAXIMUM TOTAL AMOUNT
1 TO 5	ONE	$1000[(a)]
5 TO 8	TWO	$2000
8 TO 10	THREE	$3000
10 OR MORE	FOUR	$4000

(a) Effective April 1, 1983

- Duration of assistance is based primarily on an employe's Company seniority on the last day of work.
- The maximum total amount payable for each year is:
  - $1,000 for accredited colleges, and
  - $500 for approved schools.

YEARS OF COMPANY SENIORITY



Note: Future distributions may differ from the above due to extending the plan to laid-off employes with 1-4 years of seniority.

- The above data are based on payments approved prior to the April 1, 1983 revision in the seniority table (to include employes with one but less than five years of Company seniority). -- See Page 8.

- Almost half (48%) of employes had seven or fewer years of seniority. (The average was seven years.)

- Over a third (36%) had either eight or nine years and about one-sixth (16%) had ten or more years of seniority.

SOME CONCLUSIONS . . .

- EMPLOYES ARE SELECTING A WIDE VARIETY OF EDUCATIONAL OPTIONS.
- THE MAJORITY ARE ATTENDING PUBLIC COMMUNITY COLLEGES.
- EMPLOYES ARE PURSUING THEIR COLLEGE STUDIES WITH RATHER AMBITIOUS WORKLOADS.
- EMPLOYES ARE SELECTING VOCATIONAL AND TECHNICAL EDUCATION CURRICULA.
- FOR MOST EMPLOYES, THE PLAN THUS FAR HAS PAID FOR NEARLY ALL REPORTED TUITION AND COMPULSORY FEES.
- IN GENERAL, THE PLAN IS ACCOMPLISHING ITS OBJECTIVE.

CENTER REPORTS

Center Report 1 (11-82)	UAW-FORD EMPLOYE INVOLVEMENT: A Special Survey Report
Center Report 2 (1-83)	THE SHARONVILLE STORY: Worker Involvement at a Ford Motor Company Plant
Center Report 3 (4-83)	TUITION ASSISTANCE FOR LAID-OFF UAW-FORD HOURLY EMPLOYES: The First 600 Payments -- A Profile of Experience Under the National Vocational Retraining Assistance Plan

Center Reports are distributed to UAW-Ford local unions and managements and to other Union and Company personnel.

The UAW-Ford National Development And Training Center Is Established Under The UAW-Ford Motor Company Employe Development And Training Program. The Center's Joint Governing Body, Consisting Of Company And UAW Representatives, Authorizes Specific Publications Such As The Center Report.

JOINT GOVERNING BODY

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Department, UAW
Union Co-Chairman

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Director,
Union Affairs Office
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Director,
Labor Relations Planning
and Employment Office
Ford Motor Company

Jointly Dedicated to Human Growth and Understanding . . .

UAW-Ford
National Development
and Training Center
P.O. Box 6002
Dearborn, Michigan 48121

April 1983

EXHIBIT III

UAW-FORD NATIONAL DEVELOPMENT AND TRAINING CENTER
SAMPLE PROGRAM DESIGN FOR LAID OFF EMPLOYES

[redacted]

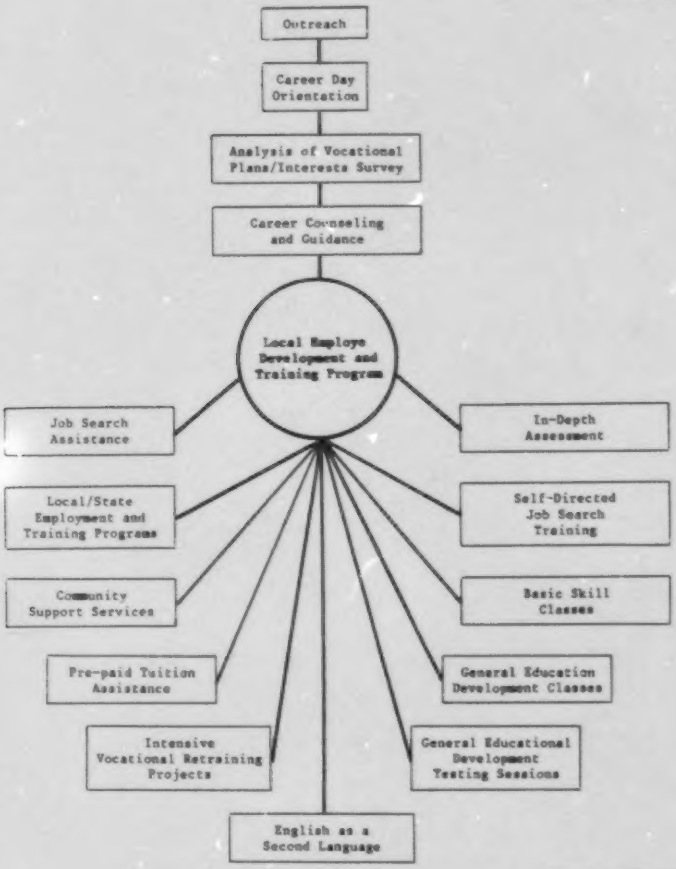
Outreach
Career Day Orientation
Analysis of Vocational Plans/Interests Survey
Career Counseling and Guidance
Local Employe Development and Training Program
Job Search Assistance
In-Depth Assessment
Local/State Employment and Training Programs
Self-Directed Job Search Training
Community Support Services
Basic Skill Classes
Pre-paid Tuition Assistance
General Education Development Classes
Intensive Vocational Retraining Projects
General Educational Development Testing Sessions
English as a Second Language

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EXHIBIT IV

SPECIAL NATIONAL CENTER ASSISTANCE FOR FACILITY CLOSINGS — SAN JOSE, CALIFORNIA

Following the 11-18-82 closure announcement, San Jose local union and management personnel formulated a comprehensive training and assistance program available to all hourly employes impacted by the closing. National Center assistance came primarily in the form of advice and technical expertise in the training field as well as an immediate source of funding for Prepaid Tuition Assistance and initial Targeted Vocational Retraining projects. Much of the program's success, however, is clearly attributable to the efforts of the local union/management Employe Development and Training Program in securing the cooperation and support of the employes, state and local government agencies and local educational institutions. The following information summarizes those efforts to date; however, it should be stressed that the overall training/retraining effort is continuing and its success in terms of employes finding jobs that suit them will not be known for some time.

- **Initial Outreach and Assessment Programs** Provided by California Employment Development Dept. (EDD)

Activity	Enrollment
Orientation to Training program/ services, UAW-Ford and EDD	1,400
Skills Assessment/In-Take Counseling	1,275
Testing for Basic Skills	1,352
Testing for English Language Skills	1,302
Job Search Skills	220

- **In-Plant Vocational Training Orientation Sessions** (Conducted by Company personnel)

Session (Varied from 2 to 10 days)	Enrollment
Personal Computers	548
Auto Upholstery	272
Forklift Operation	110
Auto Mechanics	263
Metal Repair	196
Basic Welding	282
Maintenance Welding	162
Basic Electricity	83
Programmable Logic Controllers	22
Statistical Q.C.	889
Total	2,827

- **In-Plant Seminars/Programs** (Conducted by Outside Providers)

Session (Varied from 1/2 to 10 days)	Provider	Enrollment
Financial Counseling	Crocker Bank, Employes Auto Credit Union/Santa Clara Consumer Credit Union	140
Small Business Seminar	Small Business Admin.	190
Soc. Sec. Benefits Seminar	Social Security Admin.	165
Loan Seminars	Ron Reece & Assoc.	24
Real Estate Preparation Course (2 weeks)	Century 21	136
Armed Security Guard Course	Various Agencies	17
Bartending Course	Santa Clara Bartending School	15
Total		687

- **Basic and Remedial Skills Training** (Provided by California EDD through local school systems)

Course Title	Total Attendance	Enrolled for Future Courses
English as Second Language	71	0
Math I	47	40
Math II	53	40
Pre-Algebra	26	35
Algebra	26	20
G.E.D.	130	25
Spanish Speaking Job Search	26	N/A
A.B.E. I (Adult Basic Education)	40	25
A.B.E. II (Adult Basic Education)	0	25
Reading	47	N/A
Language	0	60
Total	466	270

- **Prepaid Tuition Assistance** - National Center funded prepaid tuition assistance for self-selected education.

Applications	Total Paid
14	$ 4,189

- **Targeted Vocational Retraining Projects** (TVR)

Occupational Training	Provider	Enrollment	Funding Source
Machine Tool Technology (16 weeks)	Foothill-DeAnza Comm. College.	17	UAW-Ford National Development & Training Center (NDTC)
Microwave Tech. Training (40 weeks)	Microwave Training Institute	15	NDTC
Auto Service Technician (35 weeks)	Center for Employment & Training	18	NDTC
Semi-Truck Driving (4 weeks)	Superior Training Institute	5	NDTC
Heavy Equip. Operator (6 weeks)		5	NDTC
Computer Repair (26 weeks)	Tech. Training Ctr.	42	NDTC & Trade Adj. Asst.
Microwave Tech. Training (40 weeks)	San Mateo College	26	California Emplmt. Trng Panel
Welding (50 weeks)	San Mateo College	19	California Emplmt. Trng Panel
Machinist (12 weeks)	Foothill-DeAnza Com. College	20	Job Trng. Partnership Act (Title III)
Plant Maint. Mech. (26 weeks)	Regional Occup. Vocational Ctr.	20	Job Trng. Partnership Act (Title III)
	Total	187	

- **Placement Summary** (Hourly)

Outside Company	153
Preferential Placement (to other Ford plants nation-wide)	97
Total	250

- **Future Plans**

TVR's Under Consideration:
- Electronic/Micro Processing
- CAD Drafting
- Landscaping
- Telecommunications
- Air Conditioning/Heating/Refrigeration
- Word Processing

EXHIBIT V

SPECIAL NATIONAL CENTER ASSISTANCE FOR FACILITY CLOSINGS — SHEFFIELD, ALABAMA

- **Initial Outreach and Assessment Program**

Activity	Service Provider	Enrollment
Initial outreach	Local Employe Development and Training Program (EDTP) Committee	1,242
Career Day Conference		
- Explanation of UAW-Ford EDTP Program	Local EDTP Committee and UAW-Ford National Development and Training Center (NDTC)	406
- Presentations by community and public service agency representatives on services available to the unemployed		
- Presentations by specific training institutions		
- Completion of employe vocational interest survey		
• **Career Counseling and Guidance**	Alabama Skill Center — funded by Alabama Office of Employment and Training (OET)	107 (on-going)
• **Reemployment Assistance Center**		
- Establishment of a full service center for development and training activities	Local EDTP Committee	Available to all (on-going)
- Located at Local 255 Union Hall		
• **Prepaid Tuition Assistance**	Local Educational Institution	103 (on-going)

- **Targeted Vocational Retraining projects (TVR)**

Occupational Training	Provider	Enrollment	Funding Sources
Computer Numerical (10 weeks)	Muscle Shoals State Technical College/ Alabama Office of Industrial Development	65	UAW-Ford NDTC/ State of Alabama
Programmable Logic Control (1 week)	Same as above	21	UAW-Ford NDTC/ State of Alabama
Welding (54 weeks)	Muscle Shoals State Technical College	12	State of Alabama (JTPA)
Air Conditioning/ Refrigeration (22 weeks)	Muscle Shoals State Technical College	25	State of Alabama (JTPA)
Machine Shop (4 weeks)	Muscle Shoals State Technical College	6	State of Alabama (JTPA)
Small Engine Repair (33 weeks)	Muscle Shoals State Technical College	42	State of Alabama (JTPA)
Electronics/Electricity (22 weeks)	Muscle Shoals State Technical College	22	State of Alabama (JTPA)

- **Basic and Remedial Skills Training**

Type of Training	Provider	Enrollment	Funding Sources
Basic skills upgrade	Muscle Shoals Adult Education	25 (on-going)	State of Alabama

- **Job Search Skills Training**

Activity	Provider	Enrollment	Funding Source
- Provide self-directed job search skills - Labor market information - Resume development	Muscle Shoals Adult Education	101	State of Alabama

- **Placement Summary** (Hourly)

Outside Company	19
Preferential Placement (to other Ford plants nation-wide)	180
	199 (on-going)

- **Future Plans**

Funding has been received to continue a full-service Reemployment Assistance Center until September of 1984. The Reemployment Assistance Center will coordinate the following services:

- Counseling/assessment
- Basic skills enhancement
- Self-directed job search training
- On-the-job training
- Class-size training (TVR)
- Individual referrals to training
- Relocation Assistance
- Professional job development/placement assistance

Representative **Lungren**. Thank you, Mr. Savoie.

I want to thank all the members of the panel for giving us help to try and find some answers to some very tough questions.

Mr. Carey, you testified in favor of a national computer system to improve labor market information, to better match up job openings with people seeking jobs. Can you think of some barriers that we might run into as we attempt to develop such a system?

It just strikes me that if you have a State with high unemployment, they might be somewhat reluctant to advertise their job openings to other States and just have some other people come in and not really deal with the unemployment problem in their own State.

Is that an unrealistic problem that I foresee, and if there are such barriers, how would you suggest that we might overcome them?

Mr. **Carey**. Well, I think that the private industry councils need to play a role in the development of this national computerized system so that you can embrace support from the private business community. There are certainly—we are becoming a multicorporate nation, as well as a multinational society, in terms of our corporate effort. And I think that there will be tremendous advantages for corporations to relocate their existing work force elsewhere if the need arises to assist their workers who are seeking alternate forms of employment.

I think that you have identified the critical problem, but I think there is a solution if you involve the employer community in the development of the process.

Representative **Lungren**. Mr. Dudley, how would you respond? How would your State respond to the suggestion that we set up a better, a more comprehensive national computer system for information as to where jobs are available?

Mr. **Dudley**. Well, personally, I like that. I think that we have a similar system in South Carolina already. I am not sure how effective it is in its uses, but I think it has tremendous merit as far as trying to match it up again. But, again, that is not going to be the whole answer. I think you know this as well as I. A lot of these people that are displaced, especially these individuals who—the 15-, 20-year employees of a plant who have been displaced—a lot of those people are not going to be as mobile as some of these individuals who maybe are younger.

But I think the idea of a computer job bank, match-up, I think is a good idea.

Representative **Lungren**. Mr. Kiddoo.

Mr. **Kiddoo**. I do not like it. I share your concerns. Also, it is not realistic. We are having an awful time getting people to move, anyway. The work force is far less mobile than it was, say, 20 years ago. I can see regional job banks, certainly. But national, I just do not think that it would serve any worthwhile purpose.

Representative **Lungren**. Do you think we would have some problems in California with the fact that——

Mr. **Kiddoo**. We sure do.

Representative **Lungren** [continuing]. We would be advertizing job opportunities that might bring people from some other States and not solve our own unemployment problem? I am trying to be realistic.

Mr. **Kiddoo**. Definitely.

Representative **Lungren**. It sounds like an excellent idea, but are we going to run into some political problems with this sort of thing?

Mr. **Kiddoo**. I think we would and I think California still has a tremendous draw, as you know, both within the United States and from without the United States. We have a tremendous problem there. We have 1.3 million unemployed now. That is a large problem.

Mr. **Dudley**. On the political side, yes, sir, Congressman. I think you have a problem because I know most States in economic development have been very serious about economic development. They would probably not want that type of information to get out to the competitive States. I mean, if you have a severe shortage, a lot of States would use that probably against you rather than for you.

So it does have that negative connotation, yes, sir.

Mr. **Carey**. I would like to comment just briefly. There is currently a national job bank available that is accessible by the PC through existing mainframe capability right here in Virginia, for example. There is already some interest in the employer community in this process. I think it is the longer term view and I think the approach should be that you are looking for the best worker, not necessarily the parochial interests reflected by the individual States. And I think that if we at least, perhaps in the view of Mr. Kiddoo, approach it on a regional basis, or even pay more attention at the local and State level, I think that it would facilitate this process.

We currently have a State occupational information coordinating council in every State across this country, through the NOICC. The problem of implementation reminds me of the process of moving technological innovation to commercialization. It took 25 years between the time that the power steering was developed before it was commercialized. Right now, we have the technology to accomplish this. But we have to train the people how to use the computer terminals to access properly that job bank.

But I would like to reinforce the fact that there is already a national job bank. You have to pay for a subscription to get into it in the mainframe here in Virginia. But employers are very readily partaking in that process.

Representative **Lungren**. Mr. Savoie, from an employer's standpoint?

Mr. **Savoie**. I would like to share just two facts and I hope that if anyone looks at them, they will take it in the right spirit—as trying to share information.

We are working with one company in another State to place some of our dislocated employees. We ran into this problem where the other employer was able, by working with the Governor, the local union people, and others, to accept some of our displaced skilled workers. But they would not accept any of our nonskilled workers because they had their own to take care of.

I think that there would be some limited applicability for a job bank, in practice, but I know of many situations just like the one I just described.

The second fact is that we have a preferential placement understanding within our company. But even where people can move geographically, and have this new opportunity—we have placed 1,300 people through this system—but because of the emotional and human cost involved, we have to go through 4 or 5 applicants to get one placement. That is on the same level job and within the same company. That is with the same service company, and generally the same earnings range.

And even there, you will go through a 4:1 ratio process.

So I think that money for such a national job bank could be spent, depending on the design of that program, a little bit unwisely in terms of the results. But I think the design of the program is important. And if it emphasized a job registry in terms of a pilot project for individuals who want to register—they are already saying that they want to move—maybe that might be a different approach than simply trying to get people to list jobs.

Representative **Lungren**. I would like to address this question to the entire panel for your observations. As I mentioned, we are about to go into the full panoply of work, of the Job Training Partnership Act. One of the concerns that I have in Congress is that as we deal with specific issues, we tend to run off to create a new program or a new approach before we have even tried the program that we passed the last Congress. That is one of the fears that I have about the Job Training Partnership Act, that we will not see if it works and see how we might change it here and there and give it a real test before we are off running on some other program.

From your own observations and your own participation in the program, we have already had a part of it that started for at least several months, can you give me any ideas about your assessment of the potential for that program and where, in fact, we might make some changes as we are beginning to build up to it.

Mr. Carey.

Mr. Carey. If I may begin, as a member of the PIC in Delaware, I see tremendous potential. But, of course, the potential depends on the availability of revenues. There have been some cuts, as you are well aware, from previous CETA levels to the new JTPA system. In this process we have shut off private contractors who had been providing excellent training programs simply because of lack of resources.

I think in the area of title III, however, there is one adjustment that ought to be considered, two considerations. First of all, there is currently a 50 percent match requirement from the State level. And certainly, being a State official seeking support from the State level, I am sure you can certainly appreciate that process. It is very difficult to match what the Federal Government has already provided. And I think that some States will fall short of the matching requirement.

Representative **Lungren**. Let me just interject an observation. I have noticed that most States and localities in my own area as well love the concept of revenue sharing. I have never had one of them come to me and assert the proposition that we ought to have a sharing of the deficit. [Laughter.] But maybe that day will come. Go ahead.

Mr. **Carey**. The second feature that I think could be addressed as a refinement, a fine-tuning, if you will, and I agree with you wholeheartedly. We need to give this program time to work and I see a tremendous potential with private sector involvement. Hopefully, that private sector involvement will be maximized over the years to come.

But currently, title III is available after the fact of displacement. It just seems to be a backwards direction. We seem to throw money at cures, but we do not seem to put the money up front when the problem is in development. If that same money was given to private industry directly when they see a displacement problem coming down the road, we could intervene with the private sector and provide title III funds. Currently, I am restricted from doing that. General Motors just expressed interest in some support to move to robotics and electronics, and I was unable to give them title III assistance, even though they anticipated possible layoffs unless some additional revenue was forthcoming.

Representative LUNGREN. Mr. Dudley.

Mr. DUDLEY. Congressman, in my State, the Governor was a prime sponsor, his office, and we were the subcontracting agency under him for classroom training under the old CETA, which I think this will bear out—that probably we had one of the more successful programs, Federal programs, of that type in the Nation.

So I think under the same JTPA, we will probably go under that same type of mechanism. We felt like it merged in and was really very well to our 2-year college system. So I am definitely in favor of the JTPA and I think it has tremendous merits.

I agree a great deal with what Mr. Carey said about the preventive measure if we could do this. And I am sure that my State is no different from any others. We have a tremendous retraining and helping existing industries. Most States talk about new industries moving in or relocation. In our State, we talk about new industries, but half of the new jobs created come from existing plants or existing jobs, existing industries.

So I think we need to, in some way, to help those older plants that are refurbishing, to help them in the retraining process by some of this money also. And I am not sure that that is included under this JTPA, but that is a significant part, helping some of these older plants in their refurbishing.

Representative LUNGREN. Mr. Kiddoo.

Mr. KIDDOO. Well, I share your concern, Congressman, that we ought to let these programs run a little while before we tinker with them and try and change their direction.

This program is a tremendous undertaking and, of course, it has caused a major dislocation, you know, in all State training. The patterns are different. Some of the things are very good, such as more involvement by the private sector. We certainly welcome that.

But, you know, it is tauted as a very flexible program and it is not a very flexible program. This program is limited very distinctly to sort of a welfare-type approach which brought CETA into disrespect.

We need more flexibility at the State level. We need more emphasis on economic development. Economic development creates jobs. That gets people off of welfare. I think that we look at these programs from the wrong end. And, again, as I mentioned in my testimony, the thing that we need is flexibility. Flexibility. Let us manage our programs and do not structure them too tightly.

Representative Lungren. Mr. Savoie, has Ford Motor Co. been involved in setting up PIC's and so forth? And do you have any observations on that?

Mr. Savoie. We participate in the PIC's. And of course, we have many of the JTPA programs going already.

While I would certainly echo, as I did before, the job availability through an economic development concept, which is another whole approach, I do not think that is representative of JTPA. So in talking about JTPA, which is a remedial program, and in looking only at the aspect that sometimes you are going to need a remedial program, I believe, personally, that there should be some variations in approach by the level of unemployment in the States. I do not know what these might best be at the moment, but it is quite different trying to do this type of work where there is 17 percent unemployment against 10 percent or only 5 percent. I wish we had only 5 percent, and then everybody would say, what a great job you are doing taking these people, training them, finding them jobs.

But it is quite different when the levels of unemployment vary. And although the funds have been allocated by the levels of unemployment, yet, you do not look at it by the point of view of the retraining opportunities by level of unemployment that people want.

So I think some variation of that type would be helpful to the programs.

The other thing we found very useful is our UAW-Ford program's 5-cent-per-hour-worked funding approach. We, in effect, and I twit my finance people about Ford's 2½-year budget. There is also a 2½-year agreement. We found that many of our programs have been cut off by some of the States because of the fiscal year or they may have used some funds I am sorry to say, unwisely, where the end of the fiscal year is coming and they said well we have to spend that money—we have to shove it out or lose it.

That is a reality of life.

So I think there we are a victim of the appropriations process and we need a longer budgeting process to accommodate these programs because many of them are longer term programs. And so, some attention, I believe, should be paid to that in the law.

Now another part that we did not discuss here today which Mr. Kiddoo brought up is we have only been discussing the dislocated worker. But a lot of the law, of course, is aimed at the new worker and the disadvantaged worker. And that is an important element also, that I hope people would, from a social standpoint, continue to try to find ways to do something about these problems.

Representative Lungren. As I understand it, the greater focus of the overall Job Training Partnership Act is actually on the disadvantaged worker.

Mr. Savoie. That is right.

Representative Lungren. The displaced worker is addressed by title III of the act and represents a recognition that that is a serious problem. I do not think that it is a failure to recognize the continuing difficulty with respect to the disadvantaged worker and potential worker.

Mr. Kiddoo. I would just say about your comment on the lack of flexibility of the program, sometimes getting something through Congress is very difficult. It is probably as flexible a program as we could get through. We were trying to build on the old CETA experience, recognizing, although it may have differed from State to State on a national perspective, the public sector side of CETA probably did the poorest on getting people long-term jobs. The private sector side of CETA did the best job.

And we were concerned, as Members of Congress, about the lack of resources in the overall program going to actually training people. That is why we have put a specific limit on how much of that overall funding has to go to training people. That is dealing with a sledgehammer, I grant you. But we have no way of dealing with it other than that.

I hope perhaps we can make it more flexible as we get into it and see that that is necessary.

One of the subjects that has been touched upon in testimony of several of you and something that has been referred to in previous testimony concerns something that I believe is going on in Delaware and in California and some other States, where you use some of the unemployment insurance funds for training purposes.

What I would like to know is precisely how that works in Delaware and in California. And I do not know if you have that in South Carolina. How you would react to that sort of thing being used in South Carolina. And ask whether that approach would be preferable to splitting off funds that are now designed for the Job Training Partnership Act for sure.

In other words, is this an already existing program that we could use to fight the disease before we have to bring a cure to bear? It strikes me that it makes some sense. I recognize that there are some political problems in different States and perhaps nationally with using unemployment insurance funds for people who are not yet unemployed on the anticipation they would otherwise be.

What has the experience been in Delaware and California and has this been thought of or seriously considered in South Carolina? Or would you consider it?

Mr. Carey. Well, let me begin by saying that I can detect that you are very sensitive to the political consideration here. The U.S. Chamber of Commerce is not very excited about this idea because they see this as an additional tax to an unemployment insurance system that is already heavily burdened; 29 States are currently in a deficit position. Last year, States borrowed $13 billion from the Federal Government to keep pace with unemployment insurance benefits.

So recognizing that political constraint of involving the employer community, and I understand that the only reason California got this through was because they had a massive surplus in their UI trust fund and there were some trade-offs involved that worked out very nicely for political purposes.

But the approach Delaware is taking is to look at specifically and recommending action by the Federal Government to look more closely at the EB and FSC programs. Extended benefits and Federal supplemental compensation benefits are certainly a politically expedient, short-term solution to a downturn, a cyclical downturn in the economy. But I like to argue for structural side economics, that we ought to be putting money up front rather than paying for it later.

I use the statistic that $18 billion was spent in those programs between 1976 and 1981, including the Trade Act adjustment program. And only $53 million of the total was spent on retraining and job-search assistance, which is one half of 1 percent of the total.

So I think we have a political problem moving to that area. But I think that it should be done. One approach that is very creative that we are now experimenting with is the individual training account concept, which, in conjunction with Pat Choate and Malcolm Lovell at Brookings, Pat Choate is from TRW, we are exploring the feasibility of sharing the cost of training between the employer and the employee through a voluntary, individualized training account which would revolve similar to the IRA.

And I think there is a potential there for innovation that has not yet been fully explored.

Representative Lungren. Mr. Kiddoo.

Mr. Kiddoo. I like this idea of the individual training account. But if you do not have that, you can use your UI fund, I think very innovatively. And, of course, we use it roughly three different ways. I spoke about the work sharing program. We use UI money for that. And I talked about our employment training fund. This is a $55 million fund that we have just recently collected. And, yes, there was an agreement because we did have, not excess revenue, but because we managed our program well and do have a positive balance, we were able to get the support of the business community. And in our State, the Chamber of Commerce, the California Manufacturers Association, they came into this agreement, came into it quite willingly.

We also have a provision to extend UI benefits for those people who are in bona fide training programs. I think there is a trade-off here between just receiving your benefit, you know, and sitting home and ostensibly looking for a job or using at least part of that money for training purposes.

One of the things that we experienced, particularly at South Gate, when the General Motors plant closed there, we were late getting into it, as I mentioned in my testimony. But more importantly, because many of the workers had unemployment insurance, because they had supplemental unemployment from General Motors, they were very reluctant to come into training until they had almost exhausted those benefits.

So if, indeed, they had a decision that you can use part of this money for training, say, or you can use it entirely, as many of them did, for benefit purposes, supplemental income, I think that that would be a great thing to put that decision on the worker.

Representative Lungren. Mr. Dudley.

Mr. Dudley. I am not quite aware of what the Delaware situation and the California situation are. I know that we had a problem in South Carolina initially when our unemployment rate was so high and the fund balance of the UI was draining, and that was worked out. But at that point in time, and I think the Federal legislation relaxed their regulation on that and it became a State responsibility whether you wanted to let UI go into training or not.

But this was a serious problem in our program and nearly wrecked this particular program, I mentioned a moment ago at Piedmont Tec because we would have people who would go into the displaced worker program and the local ESC would cut them off because they were ineligible. They would lose their UI benefits because they were not eligible, then, to go look for a job.

We finally worked out an agreement whereby after a certain period of time, and I think the statistic is that if a person is going back to work, he or she will probably go back in the first weeks. At least that was the way that it was worked out in our State. But after 15 weeks, the person could automatically go into the retraining program. And also, in the first 15 weeks, if the individual is certain of the type of skill the person had, that he or she could qualify and immediately go into one of these retraining programs and would still keep their UI benefits.

I am not quite sure whether we are communicating the same problem here or not, but that was basically the one that we had in South Carolina.

Representative Lungren. One of the major questions there was using the unemployment insurance for something other than specifically just unemployment support. Some would view that as not raiding it, but tapping into a system for a purpose other than what is was originally established for.

Mr. Dudley. The problem in our State, though, was the fact that some of the people—maybe the employers, because they were actually feeding the account—that a person might not be looking for a job or, in a sense, training. So they would lose their subsistence or the UI benefits if they went into training. But that matter has been cleared up now. But that was our serious problem.

Representative Lungren. Mr. Savoie, from the standpoint of the employer, do you have any comments on what we are doing in California and what they are doing in Delaware in using that for a pattern across the country? Do you, from an employer's standpoint, have some fear of it just being another tax that will be in addition to the unemployment insurance tax that we now have?

Mr. Savoie. I am speaking here as an individual rather than in an official position. I have a lot of concern with this approach for many reasons. First, if an employee on his unemployment account were to enter into training, it could be either 15 weeks, 30 weeks, or 52 weeks of training. Also, the approach seems to me to have a philosophical basis that somebody would feel he or she is entitled to the whole UI account, in which case we would say, no, you should be looking for a job. You might be out 4, 5, or 6 weeks and then go back to work.

So I think there are some real distortions involved and we would see all kinds of things happening as people go into that.

Now Mr. Kiddoo said that in California, a lot of the workers who had their UI and who had their SUB would not enter training until the UI or SUB was exhausted. I do not know how such a program gets anybody to take on training if it is in lieu of his unemployment without some strictures. And I would hate to see any more strictures in American life that force you to do something when you have to do something else. And that may not be part of the approach, but it could happen that people would feel that you must take training and some particular type of training for jobs when nobody really knows where those jobs are.

So, I see a lot of invasion of both the concept of the program of the individual freedom down the line, plus tax distortion. If you get into this type of thing, you may find that the employer who is benefiting from it most is the one who is expanding. So he is benefiting more from that retraining than others, whereas, the tax may be levied evenly or disproportionately the other way unless it is properly done. So, a lot of the design issues rest on not hurting the ones who have already suffered—I mean, no one wants unemployment; no employer wants to go out of business; no one is doing it for the fun of it.

There could be a lot of, I would think, economic distortions that could occur from such a system. I would prefer that we focus on the individual and say, look, there are a lot of people who want training. Let us help them get it. That is what we did through part of our program—we have a tuition assistance plan, completely independent or separate. And we say: "Do you want some tuition assistance?" OK then, we say, you get so much; you have to find out how to live; you have to find your income support; you have to want it bad enough; you have to do your family things; but here is some money with a cap on it and a limit that you can use for training.

Representative LUNGREN. Who are the people who are eligible for that within the program?

Mr. SAVOIE. Anybody with 1 year or more of seniority who is on layoff is eligible. Of course, we also have it for our active employees as well—and some 3,000 laidoff people took advantage of it. That is a tremendous number, where people on their own decided to take action.

Representative LUNGREN. And they are not limited to some sort of training whereby it would be applicable to the line of work that they are in or the industry that they are in.

Mr. SAVOIE. That was one of the new things that we did for laidoff workers. It need not be related to their jobs; whereas, our active program is. Other people say, how can you do that? Those people are laid off. They may never come back to your industry. We say let them choose.

Now, a study indicates that they chose mostly vocational, technical training, and through community colleges. Some 92 percent of the costs were paid for by the program; yet, we will not pay more than $1,000 per individual a year. And they chose the data processing, computer, electronics, vocational, health fields.

Representative LUNGREN. Was there any followup study done by your people to try and determine whether this works in a situation where you are in an industry that is in some difficulty? I mean, the average autoworker recognizes that there are not as many jobs in the auto industry as there were 10 years ago and probably will not be.

Was there any sort of analysis that was pursued to see if that was perhaps the overriding factor in why they pursued jobs that seem to be geared toward advancement as opposed to the possibility that they are in an industry where unemployment is not high, they might utilize this for things that would not be of a career advancement nature.

Mr. SAVOIE. We have no such study. And since this is the field of the future, I think that is a legitimate concern for future study purposes—your second point. From my standpoint now, however, any individuals that want to advance in terms of education or training, I say, God bless them. This is America; let them do it.

So I do not have any individual concern for the present. But we have no such study and I know of none because I think that ours is the first program that gives laid-off employees some prepaid tuition assistance on a large scale.

Representative Lungren. Mr. Dudley, in your testimony, you mentioned that we are not only talking about training from the standpoint of a particular job skill, but you are talking about remedial education. And you indicated that is something that we must address ourselves to if we are going to meet the needs of many of the long-term unemployed, both in your State and around the country.

I guess my question, then, is this: Is our system of adult general education adequate to meet the literacy needs of our people? Is it something that we ought to say, now that we recognize it as a problem, we ought to construct a program, perhaps a Federal program, for it? Or is it an indication that if, in fact, it is inadequate at present, there is somewhere that we do not have to create a new program, but rather do a more intensified job of what we all traditionally thought we were doing, particularly on the State and local level; that is, providing education for our people.

Mr. Dudley. I am not sure where that responsibility is going to lie, Congressman. But I know from this standpoint, that we are having a lot of emphasis now in the K through 12—what bothers me, and this is fine. This is where it should be, to a certain degree. But we basically, I think, all agree in this room, we have two problems—we have a short-range problem that we have to deal with and we have a long-range problem.

A lot of people now are really pushing public education, public schools, K through 12. This is fine. But it is going to take us 15, 20 years, probably, to see the products coming out of the other end. We have to live—I am just talking about my State and this is what concerns me—in the next 15 to 20 years because somebody has got to pay the bills while all of this is happening. And you have to increase your revenues by economic development, new jobs creation in a State.

Therefore, you take care of the public schools, but by the same token, in our State, I think the delivery system for remediation for either the so-called high school graduate maybe who does not have the skills that he or she is supposed to have or, No. 2, the dropout or, No. 3, the person who maybe went to high school 20 years ago who needs this remediation probably in a 2-year college system, and I am probably biased on that because I think most adults like to go back and identify with a postsecondary or adult institution versus a public school institution.

So I think whatever the Congress does, it needs to take into account the two groups—the long- and short-range problem that I am talking about. You just cannot take care of the public schools because we have to do something for this mass pool of people that we have out there who do not have the three R's, the six R's, as they say.

That is not quite answering your question. It is a problem that I have in my State, though, because we have to help build up those remedial deficiencies in these people before they can take on even some of the jobs in the low skills we are talking about versus the highly sophisticated jobs.

Representative **Lungren.** All four of you have—and I thank you for it—given comments on specific proposals that have come before the Congress or specific proposals that have come out of your experience in your own States. We asked you to do that and I truly appreciate that.

Let me try to get to a more general question that covers many of those things. It arises out of my concern that oftentimes in hearings and also in congressional committees, we come up with the best plan, the ideal plan, or plans, and we create those without really looking at whether we are ever going to be able to fund them adequately. And so we have many, many different plans out there, many, many different programs. And we all come in and we all decide that, gee, we do not have enough money to support any of them adequately and we do not do the job.

We have to get back to the idea of prioritizing, even though I do not like that word. I do not know how we make verbs out of other uses of grammar, but we do here. We have to get back to setting priorities in terms of spending here.

And so from a general standpoint, let me ask you this: Do you think it would be better for us in dealing with a program for retraining of those people who are currently working, but have prospects for losing their jobs because of changes in the economy, and therefore, need retraining?

Would it be more appropriate for us to go back to basics; that is, having the educational institutions with the flexibility that you mentioned, Mr. Dudley, and the timeliness of that flexibility, and you mentioned also, Mr. Carey, making sure that those institutions are available to the worker, but in a sense, leaving it up to the worker if he or she wants to participate in those programs? Or do we need to create financial incentives of a tax nature or a granting nature to get those people to do that training?

I mean, where does the responsibility lie when you have a limited amount of resources? Is it not enough to just make sure that those institutions are there and available if the people wish to avail themselves of it?

Mr. **Carey.** I will begin by saying that you mentioned the concept of developing some tax incentives to expand training within the private sector. I am a firm believer that the private sector is the best trainer of our work force, that the public sector's role should be limited to displacement.

I am suggesting that to the extent that you can divert money that is currently dedicated to cures to prevention, I think it would serve all of our interests.

Currently, it has been estimated by the American Society for Training and Development that the private sector invests between $10 and $15 billion annually for training. The technical problem that you have when you address tax incentives—although I support it wholeheartedly—is on the deficit side. There is no question that it would drain money from the economy over the short term.

I, again, would urge the Congress to look beyond 2- and 6-year cycles, as most Congressmen and Senators are really obliged to do in some respects, and look to long-term solutions which I think will serve the interests of those of us in the public sector and private sector alike.

Representative LUNGREN. Mr. Dudley.

Mr. DUDLEY. I know there is a lot of rhetoric about the condition of our economy, the world economy, things of this nature. But I think, No. 1, all of this, and I am sure that everybody in this room understands the seriousness of the problem. I am as much of an American, a flag-waver, I guess, as anybody in the room. But I am not sure that a lot of the people still talking about and making major decisions, in my opinion, realize the seriousness of the problem facing us. I mean, with the world economy, and I firmly believe that people are going to produce goods probably where they can produce them the cheapest anywhere in the world at this day and time because you can export technology, you can export whatever it is.

So whatever—I think, No. 1, you have an educational process or renaissance process for decisionmakers and also the people back in the communities, home towns, local general assemblies, and et cetera.

No. 2 on that, though, if it is a 2-year public education system, and in the United States it is going to be this, I think they ought to be held accountable for whatever it is that you are requiring them to do. I think for too long, and I hope our system has been in tune with the economic aspect of our community, with the business and industrial segments—for too long, I think, there has been a polarization between, and I know that this has been rhetoric, too, the industrial and the economic community and the educational community.

They have to be—this job at this day and time, the competition of worldwide economy and all this, is so great, that the job of retraining, or education, is too big for just one institution alone or one group alone. It has to be a total cooperative effort.

So I think that accountability has to be there to make sure that whoever is responsible is delivering the goods. And then last, you asked who would be responsible as far as the paying of the bills? I mentioned a while ago, and I think I feel this way about it, whereas the West Germans, maybe the person can go back for 75 percent of his or her salary, I think it is probably going to be a responsibility of the industry if the person is still involved there. I think the State or the Nation has to put some money in. But I also feel that person has to have some kind of putting something into it. I am talking about dollars and cents. To make that person feel some type of involvement or not just a giveaway type of situation.

So I think it needs to be maybe a tripronged situation there.

Representative LUNGREN. You mentioned in South Carolina, one of the things that you are happiest about is the flexibility of your educational systems, how you have made some changes in it. There is probably nothing that anybody fears more than change. We all fear that, particularly when it involves our own jobs. I mean, that is the whole subject of it.

It strikes me that some people teaching in the systems would also fear change. They have been trained to teach something. All of a sudden they find out that their department is going to be eliminated, maybe changed. They will not be able to teach or they will have to go through retraining in order to teach.

How do you overcome or how have you overcome the natural reluctance to change or the natural inertia that is there when you go in with the State, saying, we need to make changes because this company's coming down here or we know that a number of companies will be down here in a couple of years and frankly, if we train people for these old jobs, there are just not going to be any jobs there?

Mr. **Dudley**. That is an excellent question, Congressman. And it has been easy in my State. I cannot answer for the other 49. But in my State, 22 years ago, this program was started, the 2-year college system, the technical education. And the bottom line simply is this—there was about a one paragraph piece of legislation which really told us to go out and help the economic base of South Carolina. And that is basically it—to help create jobs, train people for those jobs, and help raise the tax base.

Now we have tried to keep that type of philosophy, even though we have expanded the curriculum offerings in the 16 colleges. We are still probably the best economic tool the State of South Carolina has. As I mentioned a moment ago, it has been primarily the special school function dealing with manufacturing-type plants.

We realize in the 1980's and 1990's that that has got to extend over into the service, the information. Tourism is big in South Carolina. So we are going to have to also help in that particular aspect, too.

Now as far as change, you are right. I think most of us, we get complacent in what we do. If we are halfway successful, we get feeling comfortable there.

I think one of the biggest things as an administrator is CEO in a college or in my job, one thing we did when we started this "Design for the 1980's" that I alluded to, we put them in a jet and we flew them to GMI [General Motors Institute] to show them what was happening in their particular field, computer graphics. And this was back in 1978 and 1979, CNC-type of equipment. Most people had never heard of computerized numerical control. CAD/CAM, computer-aided design, computer-aided manufacturing.

It meant nothing probably to us 6 or 7 years ago. I think exposure—I guess you are going to have to shock some of these people because I think you are correct. You are going to have too many people who think things are going to be business as usual, just like this recession. When things pick up, I am going back to my same old job, whatever it is.

We fault that. I think, whether it is the Governor, and I think he probably is the person that probably in each State is the one that sets the stage, the environment, the trend of how that State is going to feel about either economic development, environmental issues, or whatever, jobs retraining, whatever it is.

But I think we have a tremendous renaissance as far as—and I did not mean to get on a soapbox, as far as the educational system in the United States, because I am not sure that a lot of us fully appreciate the problems that this Nation faces at this day and time.

Representative **Lungren**. Mr. Kiddoo, could you comment on California, whether we are seeing a response to the flexibility that evidently will be necessary with respect to changing our educational curricula to respond to these changes?

Mr. KIDDOO. Yes. I think we are seeing some tremendous changes out there, Congressman. A number of groups, such as the California Round Table, in which I sat, have studied the problem, have worked very hard to get new legislation, which we got this year. And, as you know, we appropriated an extra, I think it was $800 million to the public school system.

The community colleges—of course, which Mr. Dudley has been addressing here—we have had a greater problem there. In fact, we are having great budget difficulties right now in California, largely because the system has not been responsive. There are exceptions to that down in your own Orange County, up there at San Jose Community College which worked with the Ford layoffs, San Mateo Valley, and a few like that have been exceptional.

But, for the most part, they have not been as responsive as they might be to the needs of industry, of business, and the needs of the State.

So we are seeing some, I think, tremendous changes. I think there is legislation in California now—Dick Katz, whom you may know, has authored a prebill out there which would take a look at our total vocational training programs, not only those that are conducted through JTPA, our own CWETA program, employment training panel, and so on, through my department, but also looking at what the community colleges are doing or should do and what the department of education is doing.

And it draws up a whole new scheme of how these various programs will be coordinated, will be worked.

Representative LUNGREN. Mr. Savoie, could you comment on the type of responsiveness you have seen in educational institutions for vocational and other type training in the efforts that Ford Motor Co. has been involved in to help the displaced worker, or just people who are not displaced at this time, but participating in your tuition program?

Mr. SAVOIE. I think we have found extremely great cooperation with the groups that we have dealt with. However, we have found that having our professional center and our professional group was critical. In two or three locations, we did have to drop courses because we felt once they even had started, the quality of the instructor or the quality of the equipment was not there. Without our professionals, we would not have known that.

Representative LUNGREN. So your training center, which is the joint effort between yourselves and the union, oversaw the quality of the instructional program.

Mr. SAVOIE. You are right.

Representative LUNGREN. And you exercised an option—just take your people out.

Mr. SAVOIE. And we had in one of them——

Representative LUNGREN. That is a most effective option, is it not, the financial hammer?

Mr. SAVOIE. That is right. The adult votes with his feet when it comes to education and training. He just does not go back. And we had some of our own electricians who would not go back to that particular class. So we found out what the problem was and we actually brought in another provider. I do not think you can do that with a regular educational institution approach.

The institutions have been very willing to give us the program design and then our staff will go through the whole program design, monitor it, evaluate it, and they have accepted that. If it were done on a broader scale, I am not sure the same thing would happen.

I would like to make one point. You know, even if all of our people had had advanced degrees, they would still have faced a huge placement problem. So we have to get back to just one key point: Even if the educational system was the best in the world, it might still not be training people for the right jobs at the time that you need them. And that is important.

Representative LUNGREN. Yes. But one question I would like on that is, Are we doing an adequate job of forecasting what jobs are going to be available? I suspect that we have not been in the past. Can you see some changes coming about?

No. 1, it appears that we are beginning to recognize it. But No. 2, how do you accurately forecast what jobs are going to be available, for instance, in the auto industry 10 years from now?

Mr. SAVOIE. That is an excellent point.

Representative LUNGREN. Is Ford doing something on that?

Mr. SAVOIE. Let me respond from two standpoints. First, I think almost all of us as Americans—and particularly, as I have two of my boys here now to think about in my own right—they are going to have to face four or five jobs in their life, whether they know it or not. So we will constantly be forecasting new jobs in the future.

Now at Ford, and this is one of the points where people are saying, let us train people ahead of time when they are going to lose their jobs. I would submit that for the majority of employers, that is almost impossible to do in a meaningful sense.

We were doing the small cars. All of a sudden, it came to big cars. We closed the small factories, worked overtime at the big factories. Within 9 months, the whole picture could change again. What would be, then, the entitlement of those people—talking about the sledgehammer.

Some might come in and say, oh, yeah, we are going to retrain these people, get some money, do this particular thing or that, because we think that they may be dislocated. But, oh, now they are not. We have saved it. Was it a run to get some training money to do the job for you? Who did you help?

So I think the human entitlement ought to be the first thing that we start out with—approach the problem of dislocation through the human suffering aspect, not through preconception. There are jobs out there. Let us train people, even people at work, for what jobs might be there in the future.

We are starting a remediation and basic skills education brush-up program in our Dearborn complex with the adult education system in Michigan and in the city of Dearborn, bringing them into the factory, just as Mr. Dudley said is one of the best places. Again, for those who want it, not for everybody, not forced, because, as we indicated, out of the whole thing, you will probably find in every program no more than 10 to 20 percent of the people will willingly take advantage of these programs and benefit from them. And perhaps some 40 or 50 percent in a crisis situation will take advantage of the counseling and placement aspect. And the others will not.

Representative Lungren. As I understand the panelists, you believe that counseling is absolutely an essential ingredient in dealing with the current displaced worker, that that is as important, if not more important, than the retraining itself. Correct?

Mr. Savoie. Exactly.

Mr. Carey. Yes. I would submit that counseling and job search assistance are the most effective and it is demonstrated in the literature. In fact, Marc Bendick at the Urban Institute even goes so far as to argue that we do not have the size, the numbers of displaced workers that are traditionally assumed. The Congressional Budget Office estimates between 840,000 and 2.2 million workers. I concur with Mr. Savoie's estimates that perhaps only about 20 to 25 percent may need to be retrained to get back into the work force. I also would reemphasize the point that we should not be encouraging people for new careers if they are already possessing marketable skills. Otherwise, we will be prolonging the duration of unemployment insurance.

That is why it is very important that there be a very careful process before retraining kicks in.

Representative Lungren. Mr. Dudley.

Mr. Dudley. Could I address one thing I forgot to mention a while ago? One reason why we have been so successful, I guess, with the industry in South Carolina is we began that way 20 years ago. We probably have done some things in the colleges that would probably make a typical educator cringe because if we have a special school, we will move in and let that machine shop be taken over by training for that particular plant. I mean, whether it is our instructor or whether it is somebody out of the plant doing it. That particular thing is most important, trying to take care of local business and industry, rather than the typical educational process, if you understand what I am trying to say.

Too many States have come in to see what we are doing in South Carolina and they could not do it because—one example, and I am not going to mention the name of the State—but they could not move that into a particular community college because the educators would not let them move into the community college.

And see, we look at our institutions as being there to serve business and industry. And that is a little different from what maybe some educators——

Representative Lungren. I think all of you have mentioned that you believe that retraining programs—utilizing whatever institutions there are—must allow the private sector business community to identify what jobs are going to be available. I have always thought that that is sort of the double indignity. If you take someone who is unemployed, you send them through a training program with the promise of a job. Then that person does not have a job at the end. You have shattered that person more than if he had never taken, or she had never taken, a training program to begin with.

Mr. **Dudley**. There has to be a marriage between that local industrial and business community and that local educational institution. At least that is the way we feel in my State.

Representative **Lungren**. Well, I guess we could go on for hours and hours on this subject. I know that you all have your own time limitations. I just want to tell you that I appreciate very much this panel. It has been one of the most interesting and informative panels that I think we have had this session and I appreciate it.

If you have any other further thoughts on this subject and would like to submit it to us at any time, we would certainly appreciate it and would make sure that they would be a part of the record.

Thank you very much. The committee stands adjourned.

[Whereupon, at 12 noon, the committee adjourned, subject to the call of the Chair.]

INDUSTRIAL POLICY: THE RETRAINING NEEDS OF THE NATION'S LONG-TERM STRUCTURALLY UNEMPLOYED WORKERS

Retooling America's Labor Force: A Business Perspective

MONDAY, SEPTEMBER 26, 1983

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 2203, Rayburn House Office Building, Hon. Daniel E. Lungren (member of the committee) presiding.

Present: Representative Lungren.

Also present: Charles H. Bradford, assistant director; and Mary E. Eccles and Robert Premus, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE LUNGREN, PRESIDING

Representative LUNGREN. Good morning. First of all, welcome to this panel. We have started a series of hearings on the overall question of national industrial policy and what that means or what that does not mean. And as a followup to that, we have been examining the issue of long-term unemployment, structural unemployment, displaced workers, and so forth. We certainly appreciate the three of you taking the time out of your schedules to come here to appear before us.

The problem of long-term structural unemployment must be addressed before the United States can enjoy a high employment, high growth economy without inflation once again. The challenge confronting the Nation is to rely on competitive market forces to create jobs and upon training to assure that labor market needs are met and that all Americans can enjoy the benefits of a prosperous economy.

The challenge, although large, is not insurmountable. Unquestionably, providing training and eliminating structural unemployment will require cooperation between business, labor, and all levels of government.

Fortunately, Federal legislation is about to go into effect next Saturday to meet the Nation's training needs. The new Job Training Partnership Act provides several significant departures from the past national training and manpower policies. First, the business community is, at long last, given a significant role in designing and implementing the training programs that it must turn to for new employees. Second, unlike the past, State governments are given broad new responsibilities for training. Equally important, the act shifts emphasis from public service employment, and related make-work programs, to training to reduce long-term structural unemployment.

These features of the Job Training Partnership Act make it a unique and innovative approach to meeting America's training needs, but it remains to be seen if the business community and States can work together to design and implement effective training programs. Other important questions concern whether or not policies to improve human capital investments, such as individual training accounts and voucher systems, are also needed at this time.

The purpose of this hearing is to investigate these and other issues. In two recently conducted hearings on training and structural unemployment, witnesses told the Joint Economic Committee that labor market skills and training needs are changing as society becomes more technologically oriented. The witnesses emphasized that technological change is creating an increased need for training to keep workers employed and to equip the Nation's structurally unemployed workers with the skills to once again become employed.

Does the business community share this view that the United States underinvests in human capital resources? Or is it the perception of the business community that we overinvest in education and training?

I would hope that we could address these and other questions in today's hearing and I would like to welcome the witnesses and thank them for their participation.

Before we begin, I would just like to mention to the three of you that we will include in the record your entire prepared statements, so that if you wish to proceed to read from it, that is okay. If you wish to highlight it or give just a summary, that is also all right.

You may proceed as you wish.

The first witness we have is Mr. Jim Campbell, president of MISSCO Corp., a member of the board of directors of the Chamber of Commerce of the United States, representing the Chamber of Commerce of the United States today.

Mr. Campbell.

STATEMENT OF JAMES CAMPBELL, CHAIRMAN, EDUCATION, EMPLOYMENT AND TRAINING COMMITTEE, CHAMBER OF COMMERCE OF THE UNITED STATES, ACCOMPANIED BY ROBERT L. MARTIN, ASSOCIATE MANAGER, COMMUNITY AND REGIONAL DEVELOPMENT

Mr. CAMPBELL. Thank you very much, Congressman Lungren. I have with me today Robert L. Martin, who is our associate manager of community and regional development of the Chamber of Commerce of the United States.

Congressman, I am pleased to be here today to present a business viewpoint on solutions to the long-term structural unemployment problem that faces our Nation. We have the very unique opportunity of discussing the issues of long-term structurally unemployed workers at a time when the American economy is improving.

The Federal programs that could result from these hearings will reflect the training and retraining needs of a growing, expanding economy, and offer real long-term employment opportunities. In this connection, the chamber wants to go on record as continuing our support for Public Law 97-300, the Job Training Partnership Act. We also want to encourage the Congress to utilize fully the training delivery service that is available in this act.

The Chamber is committed to the encouragement of sound policies that promote high levels of employment. Current levels of unemployment, both cyclical and structural, must be reduced. This is beginning to happen as a result of the economic recovery and new programs as the soon to be inaugurated Job Training Partnership Act. This initiative places the business community in a new and dramatically different role. It places us in the leadership of the new Federal job training program.

On the State level, JTPA creates the State Job Training Council. One-third of each council is composed of representatives from business and industry, and it is chaired by a nongovernmental representative. The councils are responsible for advising their respective governors on the overall operation of JTPA.

On the local level, the new act reestablishes private industry councils as the leaders in the development and implementation of local training plans. The chairperson and at least 51 percent of the members of each PIC must be from the private sector.

Since its enactment in October of 1982, the U.S. Chamber has worked to assure the effective implementation of the Job Training Partnership Act. Although complete data are not available at this time, a recent chamber survey found that 82 percent of those State and local chambers of commerce responding were aware of the new job training program. Further, 98 percent of the local chambers of commerce responding were involved in the activities of their local PIC, while 84 percent of the State chambers of commerce responding were involved in the activities of the State councils.

Not only has the U.S. Chamber been involved in JTPA, but a significant number of State and local chambers of commerce are actively involved in this program at this time.

Special recognition, we think, goes to the Congress for shifting from the Federal Government to the State government administrative functions that were previously performed by the Department of Labor, for requiring most funds, 70 percent, in fact, to be spent for training rather than for income support activities. And for establishing earnings gains and reduced welfare dependency as mandated measures of performance. Local PIC administrators must meet minimum performance standards or else they lose their funding.

These three fundamental differences from previous employment and training legislation provided the cornerstone for business support for the act and helped cement the new public-private partnership.

Another job training program that the chamber has been monitoring and observing is the recently passed Emergency Veterans Employment and Training Act, which provides $150 million annually to fund on-the-job training for unemployed Vietnam and Korean era veterans.

The chamber supports the concept of job training for veterans and will be working with the Veterans' Administration and the Department of Labor to assure that the act maximizes the training funds available. Because this program will provide up to 50,000 training opportunities and because there are currently 1.2 million unemployed veterans, we must assure that the administrative costs are kept to an absolute minimum.

We also will be working to see that the act utilizes the existing training delivery services provided in JTPA and that the act applies the performance standards evaluations criteria of JTPA before there can be additional funding.

On September 21, 1983, the House passed a new public service jobs program. Sponsored by Representative Hawkins, H.R. 1036 would reestablish the public service jobs program of the soon-to-be-defunct CETA program. This program would continue the Federal Government's longstanding tradition of funding make-work, deadend public service-type jobs.

H.R. 1036 should be contrasted to JTPA, where Congress intentionally excluded funding for public service jobs because of the dismal track record of CETA. For this reason alone, H.R. 1036 should be opposed. We believe that the JTPA deserves a fighting chance to succeed before new legislative initiatives are offered.

After all, we gave CETA some 10 years to prove itself and it didn't, and we think the JTPA deserves some time to prove itself.

In going beyond JTPA, however, we want to address proposals for changes in the unemployment compensation system. We strongly support improvements in providing better job search assistance for UC claimants. But we oppose proposals to redesign and expand the basic UC program to serve individuals other than workers who are temporarily and involuntarily off the job. We believe that the UC system should give more emphasis to reemployment rather than prolonged income maintenance.

Accordingly, we urge Congress to require participation in intensive job search and counseling programs as a condition for receipt of any extended or supplemental UC benefit. Indeed, it is surprising to discover that State employment service agencies do not provide such job search counseling. Already, ironically, less than half of the employer's Federal unemployment tax contributions are spent on any services to UC claimants.

We urge Congress to rectify the situation by providing financing from a source other than unemployment taxes, for U.S. employment service functions for individuals who are not eligible for UC, including labor exchange for first-time jobseekers, services for migrant farmworkers, and special programs for exoffenders and the handicapped and so forth.

We support the displaced workers title, title III of JTPA, which encourages States to offer placement assistance and training for job losers whose skills must be updated in order to find new jobs.

To assure high levels of employment in the 1980's, both economic recovery from the current recession and sustained economic growth are needed. Achieving these goals requires support of the following fundamental policy goals. First, we must stimulate saving and investment work effort and productivity by reducing both personal and business taxes. We must reduce the growth of Federal spending and entitlement programs. We must reduce the burden of Federal regulations. We must encourage the moderate and steady monetary policy. And lastly, we must regain international leadership by aggressively trading in world markets.

Employment opportunities are expected to rise throughout this decade. According to the Department of Labor, total employment will rise from 102.1 million to more than 120 million, at least 17 percent. This will mean a net gain of at least 17 to 19 million new jobs.

An analysis of these figures shows that the service worker sector of the economy will experience the largest increase of job opportunities, while the farmworker category will continue to offer fewer jobs.

In addition, most projections show that the greatest number of service-oriented job opportunities in areas such as insurance, real estate, hospitals, hotels, and auto repair. Many of these service-oriented jobs do not require 4-year college degrees, but rather, call upon the kind of training and retraining that could be provided through the Job Training Partnership Act.

Equally important to an analysis of what types of jobs will be created is consideration of the types of businesses that will provide them. During 1982, the Small Business Administration estimated that 560,000 new businesses were created with the vast majority being small firms. Further, between 1979 and 1981, 60 percent of all new jobs were created by firms with 500 or less employees.

So the development of any new Federal employment and training program must, at the very least, focus on the needs of the small business person and provide programs to prepare Americans for jobs in the emerging service worker field.

During the past 2 years, the chamber has actively worked to develop a framework for an effective national employment and training policy. Support for JTPA represents our initial efforts in this area. However, we believe that future employment and training programs should model JTPA and they should further reflect the following: First, the creation of any public or private employment training programs must meet current and emerging labor market demand. State and local governments should take a lead role in improving the education system's ability to prepare people for work. The Government should supply information about labor markets to the public. The Government should identify skill needs and assist educators and employers to retrain affected workers. The Government should focus placement services on those who are drawing income maintenance and employment and services from Government-funded programs.

Employment and training should not be used as an income transfer program and actual employment and training services should be available to all qualified groups in the public and private sectors on a competitive basis.

Economic recovery is well underway. Its benefits are now being realized. Unemployment, inflation, and interest rates are all down. The goal of Congress must be to support efforts that will lead to permanent job creation and to avoid programs that are just politically attractive. Usually, these propose short-term gains and impose serious long-term consequences. We must continue to support established job training programs that offer real hope to the disadvantaged, dislocated workers of America.

And to that end, we urge the committee to review and act upon our recommendations.

Thank you, Congressman Lungren.

[The prepared statement of Mr. Campbell, together with attachments, follow:]

PREPARED STATEMENT OF JAMES CAMPBELL

I am Jim Campbell, President of the MISSCO Corporation, a member of the Board of Directors of the Chamber of Commerce of the United States, and Chairman of the Chamber's Committee on Education, Employment and Training. With me today is Robert L. Martin, Associate Manager, Community and Regional Development, of the Chamber of Commerce of the United States.

Mr. Chairman, I am pleased to be here today to present a business viewpoint on solutions to the long-term structural unemployment problem facing our Nation.

We congratulate the Chairman and committee members for holding these hearings so that representatives of all points of view can come together at one time. Such an arrangement furthers the exchange and cross-fertilization of ideas so important, if we are to arrive at a national consensus on this important issue.

We have the very unique opportunity of discussing the issues of long-term structurally unemployed workers at a time when the American economy is improving. The federal programs that could result from these hearings will reflect the training and retraining needs of a growing, expanding economy and offer real long-term employment opportunities. In this connection, the Chamber wants to go on record as continuing our support for P.L. 97-300, the Job Training Partnership Act, and encourage the Congress to utilize fully the training delivery service available in this Act.

Chamber Support for Job Training

The Chamber is committed to the encouragement of sound policies that promote high levels of employment. Current levels of unemployment, both cyclical and structural, must be reduced. This is beginning to happen as a result of economic recovery and new programs, such as the soon to be inaugurated Job Training Partnership Act (JTPA). We are optimistic JTPA will contribute much to solving the problems of disadvantaged adults, displaced workers, and unemployed youth through a unique public-private partnership. This initiative places the business community in a new and dramatically different role -- leadership of the new federal job training program. Previous federal government adventures into this area failed in part because of a lack of meaningful involvement by the employer community.

On the state level, JTPA creates the State Job Training Coordinating Council. One third of each Council is composed of representatives from business and industry, and is chaired by a non-governmental representative. The Councils are responsible for advising their respective governors on the overall operation of JTPA.

On the local level, the new Act reestablishes Private Industry Councils (PIC) as the leaders in the development and implementation of local training plans. The function of a PIC is to provide overall policy guidance utilizing the resources available from local elected officials and the business community. The Chairperson and at least 51 percent of the members of each PIC will be from the private sector.

Since its enactment in October 1982, the U.S. Chamber has worked to assure the effective implementation of the Job Training Partnership Act. Beginning with the Board of Directors' statement of November 10, 1982, (Attachment A) and most recently with the completion and distribution of the new Chamber primer entitled, The New Job Training Partnership Act, the Chamber has encouraged and fostered business involvement in the new program. Although complete data are not available at this time, a recent Chamber survey found that 82 percent of those state and local chambers of commerce responding were aware of the new job training program. Further, 98 percent of the local chambers of commerce responding were involved in the activities of their local PIC, while 84 percent of the state chambers of commerce responding were involved in the activities of the State Councils. Not only has the U.S. Chamber been involved in JTPA, but a significant number of state and local chambers of commerce are actively involved in this program.

There are myriad reasons to explain the positive response of the business community to the Act, including the outstanding congressional leadership of Senators Hatch and Quayle and Representatives Erlenborn, Perkins, and Hawkins; the excellent work of the Department of Labor led by Secretary Donovan and Assistant Secretary Agrisani; and the assistance and support provided by the Business Coalition of the National Association of Manufacturers, the Committee on Economic Development, the Business Roundtable, the National Alliance of Business. Special recognition goes to Congress for:

- shifting from the federal government to the state government administrative functions previously performed by the Department of Labor;
- requiring most funds (70 percent) to be spent for training rather than for income support activities; and
- establishing earnings gains and reduced welfare dependency as mandated measures of performance. Local PIC administrators must meet minimum performance standards or lose their funding.

These three fundamental differences from previous employment and training legislation provided the cornerstone for business support for the Act and helped cement the new public-private partnership.

Another job training program the Chamber has been monitoring and observing is the recently passed Emergency Veterans' Employment Training Act, which provides $150 million annually to fund on-the-job training for unemployed Vietnam and Korea era veterans.

The Chamber supports the concept of job training for veterans and will be working with the Veterans' Administration and the Department of Labor to assure that the Act:

- maximizes the training funds available. (Because this program will provide up to 50,000 training opportunities, and because there are currently 1.2 million unemployed veterans, we must assure that administrative costs are kept to a minimum.)
- utilizes the existing training delivery services provided in JTPA.
- applies the performance standards evaluation criteria of JTPA before there can be additional funding.

New Legislative Proposals

A number of new legislative proposals are being offered to solve the training, retraining, and employment needs facing our Nation. Each proposal deserves careful analysis to assure that we continue down the positive path lead by JTPA -- and not the wrong path of the previous CETA program.

Public Service Jobs Proposal. On September 21, 1983, the House passed a new public service jobs program. Sponsored by Rep. Hawkins (D-Calif.), H.R. 1036 would reestablish the public service jobs program of the soon to be defunct CETA program. This program would continue the federal governmnent's long-standing tradition of funding make-work, dead-end public service jobs.

H.R. 1036 should be contrasted to JTPA where Congress intentionally excluded funding for public service jobs, because of the dismal track record of CETA. For this reason alone, H.R. 1036 should be opposed. We believe that JTPA deserves a "fighting chance" to succeed before new legislative initiatives are offered. Afterall, we gave CETA 10 years to prove itself, and it didn't. JTPA deserves some time to prove itself.

Proposed Changes in the Unemployment Compensation System. The Chamber shares this Committee's concern for the long-term structurally unemployed, and we believe that JTPA provides the appropriate framework for federal assistance.

In going beyond JTPA, however, we want to address proposals for changes in the unemployment compensation (UC) system. We strongly support improvements in providing better job search assistance for UC claimants, but we oppose proposals to redesign and expand the basic UC program to serve individuals other than workers who are temporarily and involuntarily off the job. We believe that the UC system should give more emphasis to reemployment rather than prolonged income maintenance. Accordingly, we urge Congess to require participation in intensive job search and counselling programs as a condition for receipt of any extended or supplemental UC benefits. Anyone who remains unemployed for at least six months can be presumed to be in need of this type of assistance, which has been proven successful in shortening spells of unemployment (and disqualifying UC claimants who fail to report jobs). Indeed, it is surprising to discover that state employment service agencies do not provide such job search counseling already. Ironically, less than half of employers' Federal Unemployment Tax contributions are spent on any services to UC claimants.

We urge Congress to rectify this situation by providing financing from a source other than unemployment taxes for U.S. Employment Service functions for individuals who are not eligible for UC, including labor exchange for first-time job seekers, services for migrant farmworkers, and special programs for ex-offenders and the handicapped, etc..

We support the Displaced Workers Title (Title III) of JTPA, which encourages states to offer placement assistance and training for job losers whose skills must be updated in order to find new jobs. The Act expressly exempts participants from UC work search requirements while in Title III programs. Although federal law prohibits states from disqualifying UC claimants who are in approved training, few individual take advantage of even the limited training opportunities, in part because the availability of long-term UC or Trade Adjustment cash benefits discourages them from facing up to permanent changes in the job market. Extension of benefit duration without mandatory job search or retraining encourages workers to postpone adjustment and defeats the intent of JTPA.

Broad Action Needed

To assure high levels of employment in the 1980s, both economic recovery from the current recession and sustained economic growth are needed. Achieving these goals requires support of the following fundamental policy goals:

- stimulate saving, investment, work effort, and productivity by reducing both personal and business taxes;
- reduce the growth of federal spending and entitlement programs;
- reduce the burden of federal regulations;
- encourage a moderate and steady monetary policy; and
- regain international leadership by aggressively trading in world markets.

Attachment B lists various proposals that would accomplish these goals.

Future Employment Opportunities and the Role of Small Business

Employment opportunities are expected to rise throughout this decade. According to the Department of Labor, total employment will rise from 102.1 million to more than 120 million, at least 17 percent. This will mean a net gain of at least 17 to 19 million new jobs.

Table 1 shows projected job changes to 1990. An analysis of these figures shows that the service worker sector of the economy will experience the largest increase of job opportunities, while the farm worker category will continue to offer fewer jobs. With the movement of the economy shifting toward service-oriented employment, the labor force is likely to become increasingly dominated by low and semi-skilled service jobs. In addition, most projections show the greatest number of service-oriented job opportunities in areas such as insurance, real estate, hospitals, hotels, and auto repair. Many of these service-oriented jobs do not require four year college degrees, but rather call upon the kind of training-retraining that could be provided through the Job Training Partnership Act.

TABLE 1
Projected Job Increases 1980-1990

	1980 (in thousands)	1990 (in thousands)	% Change
White Collar	51,436	64,752	26
Blue Collar	32,435	40,497	25
Service Workers	15,547	20,234	30
Farm Workers	2,689	2,426	- 10

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* Source: "Occupational Outlook Quarterly," Spring, 1982, U.S. Department of Labor.

Equally important to an analysis of what types of jobs will be created is consideration of the types of businesses that will provide them. During 1982, the Small Business Administration estimated the 560,000 new businesses were created with a vast majority being small firms. Further, between 1979 and 1981, 60 percent of all new jobs were created by firms with 500 or less employees. So, the development of any new federal employment and training programs must, at the very least, focus on the needs of the small businessperson and provide programs to prepare Americans for jobs in the emerging service worker field.

Future Job Training Legislation

During the past two years the Chamber has actively worked to develop a framework for an effective national employment and training policy. Support for JTPA represents our initial effort in this area. However, we believe that future employment and training programs should model JTPA and further reflect the following:

- the creation of any public or private employment training programs must meet current and emerging labor market demands;
- state and local governments should take a lead role in improving the education system's ability to prepare people for work;
- the government should supply information about labor markets to the public;
- the government should identify skill needs and assist educators and employers to retrain affected workers;
- the government should focus placement services on those who are drawing income maintenance and services from government-funded assistance programs;
- employment and training should not be used as an income transfer program; and
- actual employment and training services should be available to all qualified groups in the public and private sectors on a competitive basis.

Conclusion:

Economic recovery is well underway and its benefits are being realized. Unemployment, inflation and interest rates are down. The goal of Congress must be to support efforts that will lead to permanent job creation and to avoid programs that are just politically attractive. Usually these propose short-term gains and impose serious long-term consequences. We must continue to support established job training programs that offer real hope to the disadvantaged-dislocated workers of America. To that end, we urge the Committee to review and act upon our recommendations.

Attachment A

Foreword
A Commitment to Leadership

The Chamber of Commerce of the United States hails the enactment of the Job Training Partnership Act (P.L. 97-300) and will utilize its resources to help successfully implement it.

This Act is a sensible and workable law. It provides a framework for a new, vital partnership between knowledgeable employers and local officials. It will help train people for real and permanent jobs in the private sector.

Fortunately, this Act places the leadership of these public training programs and facilities in the hands of local employers who know what skills are needed and what jobs are available in the communities, as they work in partnership with local elected officials to help the disadvantaged.

The new law will benefit those who need to acquire skills to get a job; displaced workers who must prepare for new careers; and employers—especially small firms—who seek well-trained and qualified employees.

The success of this new job training program will depend on the degree to which the business community makes a commitment to leadership of the system. The Act provides the chambers of commerce with an excellent opportunity to organize this local and state business leadership.

Therefore, the U.S. Chamber encourages local and state chambers and their allied business organizations to take the lead in implementing the Act.

The U.S. Chamber also encourages trade and professional associations and business firms to join in this effort.

Note: This statement was adopted by the Board of Directors of the Chamber of Commerce of the United States on November 10, 1982, following the enactment of the Job Training Partnership Act (P.L. 97-300).

Attachment B

SELECTED ACTIONS TO SOLVE UNEMPLOYMENT PROBLEMS

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
Community Development/ Urban Renewal	Enterprise Zones	Legislative	Free enterprise approach to urban development	Experiment to increase jobs in depressed areas.
Education	Reauthorize the Vocational Education Act so that federal dollars are used as incentives for the voc-ed system to make its program directly respond to specific employer needs - including initial training of young people and retraining of a mature workforce.	Legislative	To make better use of a $6.5 billion annual investment - which cannot now be shown to make a significant difference in earnings for students who complete secondary voc-ed and those who complete the general education curriculum. (Same is not true at the post-secondary level.)	Reduced unemployment among youth - now 19.5, and 48.1 for minorities - by providing them with job skills that are compatible with present and future industry needs.
Job Training Partnership Act	Implement Title III of JTPA	Enacted	Allows state governments to set up an organization of employers and others to direct job search, placement and training assistance to displaced workers.	Cost - $150 - $200 million. Would aid unemployed skilled workers, who have lost their jobs in declining industries.
Health Insurance	Prevent new taxes on costs of employee health plans.	Legislative	To prevent larger costs for labor, particularly any that would reduce adequate health care for the labor force.	Prevent increased labor costs that could increase unemployment.

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
Unemployment Compensation	Charge Federal Supplemental Benefits debt to federal general revenues (FSB was temporary extension of duration 1974-78).	Legislative	To repay advances that should never have been an employer liability; will speed up expiration of payroll surtax	Increase employment by reducing total labor costs of businesses
	Prohibit net benefit liberalization while states are in default on loans	Legislative	To prevent states from raising benefits when they can't afford existing benefits; will encourage benefits reform leading to earlier return to work and reduce future payroll tax increases	Increase employment by reducing total labor costs of businesses. Budget savings - $1 billion
	Tighten eligibility for Federal Supplemental Compensation	Legislative	To eliminate payments to individuals with weak work-force attachment, out on strike, etc; will reduce incentives to avoid work.	Increase employment by reducing total labor costs of businesses. Budget savings - $100,000. Reduces disincentives to take jobs.
	Require claimants to participate in programs teaching how to look for jobs.	Legislative or Regulatory	To teach claimants how to find their own jobs and to disqualify claimants who are not interested in working; will reduce benefit payout, payroll taxes.	Increase employment by reducing total labor costs of businesses. Budget savings - $1 billion. Reduces disincentives to take jobs and reduces cost of labor.

Representative **Lungren**. Thank you very much, Mr. Campbell. Our next witness is Mr. Nathaniel M. Semple, the vice president of the Committee for Economic Development.

Welcome, and you may proceed as you wish.

STATEMENT OF NATHANIEL M. SEMPLE, VICE PRESIDENT, COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. **Semple**. Congressman Lungren, thank you very much. First, let me apologize for getting my testimony up to you rather late. Both myself, my staff, and the Xerox machine all caught the flu at the same time. And as far as I can tell, only the Xerox machine has recovered. [Laughter.]

First, let me say that, as you know, CED has had a long interest in this area. We were actively involved in the Job Training Partnership Act and we have maintained a continuing interest in related labor market policies.

Before going on, I would like to comment directly to the questions that you raised in your letter, which I have not addressed in my testimony.

First, is JTPA sufficient to deal with structural unemployment?

Even if we could agree as to what the term "structural unemployment" means, and there is a lot of difference as to that, it is too early to say. For all practical purposes, JTPA is just getting underway. It is our belief that it provides a new and, hopefully, better administrative arrangement to encourage a much greater participation of the business community in helping resolve structural unemployment problems, but there is a lot that still has to be determined.

Is the business community living up to its obligations? Well, from any evidence that I have seen, either from our trustee companies or from other businesses, yes, indeed. They have become aggressively and actively involved in JTPA. But, again, it is too early to say.

But the fact of the matter is JTPA is primarily targeted to one type of structural unemployment and is dealing with a group of the unemployed—namely, the disadvantaged—and structural unemployment may well include a good deal of other individuals. Although title III does deal with dislocated workers, it does so in just a beginning fashion.

As you know, the structural unemployment problem has become increasingly complex and there is very little agreement as to what the future may bring. But, we do know that there are certain things that will happen in terms of labor force demographics. I detail these in my prepared statement. Suffice it to say, we do have a general idea what the labor market will look like in terms of sex, race, and ethnicity a few years hence.

But there is almost no agreement on what the demand side of the equation will look like.

As you know, there are three schools of thought as to what the future will bring as to structural unemployment. The first holds that the U.S. economy will undergo a massive structural change, with technology supplanting many jobs and not enough new jobs being created to replace them. You may have seen the AFL-CIO statement to this effect that came out this last August.

The second school believes that we are also experiencing such change, but feels that we are going to have critical job shortages. The third school believes, and I would term this group the "gradualists," who do not see much change happening, who believe that the market system will pretty much be capable of dealing with changes and who contend that much of the job growth will take place in traditional sectors.

It is little wonder that policymakers tend to be confused when the experts are so clearly confused. But I do not think that we have to be confused. In my view, we all generally agree that change will occur, and to some extent. What we do not know is how much will occur? And I believe it is possible, and I think that JTPA is a good beginning, to structure policies that will work in a situation where we do not know how much will occur, but we do know that something will occur.

Let me explain myself.

First, I think we can agree that there are going to be three basic kinds of structural unemployment problems. In past years, as you know, economists tend to define structural unemployment as occurring when there is a structural shift as a result of changing technology, competitive position, et cetera. But recently we have also included those who do not have the skills initially to join the labor market in any kind of job. For example, this involves the unemployment problems of youth, particularly minority youth, and the "disadvantaged." This is the first form of structural unemployment.

Second, I think that there will be instances of highly visible job dislocation of the sort now going on in some of our basic industries. And third, I do believe that there is going to be dislocation—maybe not a lot—but some that involves jobs skills mismatch, where skill requirements in the workplace change more rapidly than the skills of those in the labor market.

Now, as I said, I think it is possible to adopt policies to deal with all three. CED has been looking at these differing kinds of unemployment for quite some time. Over the last 2 years, we have been looking at labor market problems of dislocated workers. We have also been looking at the youth problem. I will not discuss the youth problem now, since it involves issues such as education, and this may not be the place to deal with it right at the moment.

Regarding large-scale localized dislocation, that which results from permanent plant closings, next week, the CED will be considering a series of policy options to deal with this problem. We believe that failure to deal adequately with this problem may lead for political reasons to the wrong kinds of "industrial policy," either protectionist measures or plant closing legislation or the like.

We think that this is a very important problem that we need to deal with and if we are going to allow the economy to adjust to change, we think that we have to deal in some part with this issue.

We are considering a number of policy options, both private and public. On the private side, one is to institute agreements between labor and management. Another is to adjust the level and structure of employment compensation, where wage differentials have been a problem. The third is to adjust assistance in response to plant closings of a voluntary nature. And we emphasize "voluntary."

Among the public options is the greater utilization of JTPA and a general reform of the unemployment insurance system. And a third is liberalizing State laws to enable those receiving UI to participate in training.

Since the CED has not made any official pronouncement on these recommendations, I cannot discuss them in great detail. I will have to wait until Friday to do that. It often happens whenever I testify that I am 3 days too soon.

But, with respect to the latter two recommendations which involve the UI system, I think that we will agree on certain fundamental principles. First, any change that involves the UI system must be flexible and responsive to demand; second, any program should be tied directly to currently employed workers; third, any program should be self-financing, and further, any involvement of business should be voluntary or have mandated offset by other relief in the UI system. Finally, and perhaps most important, a training option needs to be included.

If tied into the UI, workers ought to be discouraged from staying on UI for an extended period of time, and encouraged to participate in early job search and counseling. Finally, any new effort needs to be operated in conjunction with a greater improved employment service, and as well, I might add, with the JTPA as it develops.

There are several proposals now that have been suggested, one jointly by Pat Choate and Malcolm Lovell, and another by our own Mr. McLennan at CED. I will not detail these for you. They are included in my testimony. Suffice it to say that they are geared in much the direction that I have described and emphasize training as a necessary ingredient.

The main problem with these proposals and, again, I do believe that they are heading in a somewhat useful direction, is the question of who is going to foot the bill? Whenever you mention taxation in this process, hackles of concern are raised in the business community and I do believe with some justification.

However, I do think that they do represent, and I would urge that you look at them carefully, a beginning of how to deal with the long-term dislocation problem without having to create new institutions. It has always been a habit of the Congress to create whole new institutions or else to fund a large program with billions of dollars. But even if a program is devised along these lines, it should be market-tested and experimented with before going on.

I might add that there is one other proposal that I know of fairly well and that is one of Marc Bendick's of the Urban Institute. Without going into detail on his, let me say that he does emphasize the importance of early job search. And I happen to share his view on that. When I was on the Labor Committee, we did a survey of a series of experimental job club and job search programs and I can only say that we were rather impressed.

Clearly, anyone who has ever been in the position of being unemployed knows how difficult it is to get geared up to find a new job. My guess would be that if this was heavily emphasized, and it is emphasized in the proposal by Malcolm Lovell and Pat Choate, that a good deal of the concern raised about staying on unemployment for a long time might be mitigated.

Mr. Bendick points out that he does not think that there is going to be much need for training of dislocated workers and he both shows empirical and other evidence to indicate that most workers who are unemployed will not need it.

Now this may be true to a certain extent, and I believe it is true to a certain extent, except the unemployment we are dealing with now involves quite a shift, primarily in the wage area.

Now it is not my feeling that—I have had some experience with this problem. I worked on the assembly line myself back in the late 1960's and I can tell you from my own experience that it was a horribly boring job, probably more boring than listening to testimony. [Laughter.]

And that it paid very good wages. To me, at the time it seemed like a king's fortune, but that it did not involve a great deal of job skills. And if I had elected to stay in that job for 15 years—actually, I would not have had a chance since they closed the plant—I would have had very few transferable skills and I would have had a very high wage to deal with.

One of the great problems, I think, that dislocated workers in heavy industries are having to contend with is the adjustment in their wages. Now I do not think it is necessarily society's obligation to make a direct transfer. But I do believe that, despite what Mr. Bendick says, training can certainly help mitigate the problems of wage dislocation.

So I do believe training should be an option as does Choate and Lovell. For example, there is one program in New Jersey that does directly train autoworkers in truck driving. Now it is a different kind of occupation, but it pays reasonably well. This kind of adjustment, I believe, is useful and justifiable. I am not a great advocate of doing much more, such as the bill that was passed in the House. I feel that the long term—we really need policies that are market-oriented and not create new public responses or new public jobs.

Congressman, in closing, I would like to point out that all proposals dealing with future change have to face certain obvious realities. First, we really do not know who the dislocated are. Now the estimates range from 100,000 to 2 million. We do not know what their characteristics are in age, sex, educational achievement, career patterns, or family situations.

I know this would be hard to do, but I think it would be fascinating to find out what happened to the air traffic controllers. They had no assistance whatsoever in terms of their job dislocation, none whatsoever. And it would be kind of interesting to see what kind of resources they actually fell back on in order to adjust or whether, in fact, they did adjust.

If there is a classic example of a dislocation problem where people had untransferable skills, but were paid wages of a fairly good nature, I think that represents it. I know it is not something that the current administration would go charging off and doing, but I do think that it would be an interesting thing to look at.

Second, the problem is just who is to foot the bill? I have already mentioned some of the problems. The idea of cost sharing is something that we generally support. But, once again, the question is who is going to be taxed and how much, and if you do put a tax in for the business community, does it represent a camel's nose under the tent problem? And I believe that these are very thorny issues.

The third is the fundamental question of the management capability of our employment service and our UI system financing problems.

And the fourth is the simple fact that whatever proposals we are going to be considering really will not deal with the current dislocated issue and we will be relying primarily on title III. I have never known anything to happen where we can forego dealing with the current problem and usually that results in new legislation with a tremendous budgetary impact.

But, in closing, I am sympathetic with the notion that training assistance that is tied to the worker can ease transition difficulties. Now there are those who may criticize the GI bill, but some of us forget, and I used it myself, that after World War II, we had probably one of the greatest structural changes that ever occurred in this economy, from a war-time to a peace-time economy. And I think the GI bill was a good reason, one of the major reasons, why that transition went as smoothly as it did.

In closing, I hope you do look at some of the suggestions that I have included in my prepared statement. I do believe they represent a good beginning. They certainly are not miracle answers. I am not sure that the CED trustees would necessarily share the details, but I think they would share the intent.

Thank you.

[The prepared statement of Mr. Semple, together with additional material, follows:]

PREPARED STATEMENT OF NATHANIEL M. SEMPLE

Mr. Chairman

My name is Nathaniel Semple and I serve as Vice President of the Committee for Economic Development and Secretary of its Research and Policy Committee, otherwise known as CED. CED is comprised of 200 leading business executives and educational leaders who actively develop policy recommendations on a variety of economic and other important issues facing the country.

We at CED have long held a special interest in employment and labor market policy and were, most recently, actively involved in development of the Job Training Partnership Act. We have also maintained a continuing interest in related policies such as unemployment insurance, dislocated workers, and other matters related to structural unemploymennt.

We are currently developing a series of proposals on labor market policy as part of our study on international competitiveness which we hope to release late this year. I will refer to our tentative conclusions on this study as I proceed.

The structural unemployment problem has become increasingly complex, more so, perhaps, than at any time in recent history. However, there are certain "facts" I believe most experts would agree on in terms of what the labor market will look like in the years to come. We are fairly certain that:

1) The labor force will continue to grow but at diminishing rates by 1995. Two-thirds of this growth will likely be provided by women.

Although partially based on prior CED policy statements, these views expressed herein are entirely those of the author and in no way represent the views of individual CED trustees or their organizations.

2) Prime age workers (25-54 years old) will continually increase as a percentage of the labor force and will grow from a level of 65 percent today to over 72 percent by 1995.

3) Female participation rates will continue to increase and by 1995 women may account for as much as half of the total labor market.

4) The rate of employment in the service area will continue to grow -- at a slightly less rapid pace than we have been experiencing, but at a rate faster than in manufacturing. which by 1995 will represent less than 20 percent of the labor force.

5) With the passage of the baby boom, the labor force will continue to "age" and that youth's share of the labor market will fall to about 13 percent as compared to about 16 percent today.

6) The representation of blacks and other minority groups will continue to increase and between 1985 and 1990 their rates of entry into the labor market will at least double that for whites.[1]

But this is where any agreement ends. There is virtually no agreement on what impact competitive and technological changes will have on the labor market. At no time in my experience -- and I have spent most of my career dealing with structural unemployment issues -- have I witnessed such confusion of the "experts" on what structural unemployment really is and what the future may bring.

There are three general schools of thought. The first holds that the U.S. economy is experiencing massive structural change -- akin to that of the industrial revolution. This observation asserts persistently high levels of "structural unemployment", with technology supplanting many jobs and not enough new jobs being created to replace them.[2] It is estimated by some that job losses resulting from technology and foreign competition could reach as high as 10 to 15 million workers, with much of this occurring in the next few years.

The second school also believes we are experiencing a profound change in the economy for much the same reasons, but thinks our biggest challenge will be to deal with a growing cumulative skill shortage, particularly in areas such as industrial machinery repair, computer operators, machinists, tool and die makers and the like.[3] This latter school sees technology impacting throughout the occupation spectrum, and envisions the urgent need for both training new entrants and retraining the existing work force to meet changing job requirements.

Some of those who hold these views call for significant government involvement, either in large scale job creetion to offset unemployment, or in providing a fair share of the resources for training and retraining the work force to "man" the economy of the future. A bill responding to this expectation has been recently introduced by Senator Nunn, who predicts the cumulative shortage to be in the neighborhood of 2 million.

The third school are those who I would call the "gradualists." This school cites the empirical evidence of the past to show that the shift will not be as profound as some might believe. They believe that job creation will occur, in very traditional sectors, and that the marketplace will be by and large capable of responding to shifts in job demands and training requirements. This school views dislocation more as a problem of wages and sees the chief problem being the transition of a work force from higher-paying jobs to lower-paying occupations.[4]

Little wonder policy makers are confused. You needn't be, for while experts do disagree on the extent of change, its impact, and the ability of the market system to deal with it, they do agree that some change will occur. And I believe most would agree that we will be faced with structural unemployment in these readily perceived areas.

First, we will continue to experience employment problems among youth, particularly minority youth and other new entrants to the labor market.

Second, there will be occurrences of highly visible job dislocation of the sort now going on in some of our basic industries, as well as some displacement of other manufacturing jobs which will be shifted overseas.

Third, we will see some job/skill mismatch, both within existing occupations where current workers fail to keep pace with changing job requirements and when new jobs will go unfilled because of "skill shortages."

I believe it is possible to adopt policies to address these areas without severly impacting the budget. To do so, they need to be flexible, be designed to respond to change as it occurs, and not be predicated upon how much will occur.

On the issue of youth unemployment, although the aggregate number of jobless youth will decline, black youth will continue to experience serious labor market problems.[5] Much of the solution to this problem rests with improving the schools in our nation's cities, and convincing a generation of youth that attending school is a critical ingredient to long-term success.

Considerable national public attention is now being paid to our educational problem. CED has initiated its own look at the problem under the leadership of Owen Butler, Chairman of the Procter and Gamble Company, but from a quite different perspective. We intend to define, from a business perspective, those skills which a young person who is not going on to higher education will need to obtain productive employment. A better descripton of this effort is contained in the attached material which I would like to have inserted in the record.

For my own part -- and what I am about to say represents my views only and in no way is to be viewed as representing the thoughts of CED's trustees -- I believe it is extremely important, in addition to upgrading schoool quality and standards, to provide young people with job experience. One recent experiment has shown that linking schools with job experience can have a profound effect on encouraging youth to remain in and return to school. Rather than take the time to detail this approach, I refer you to several reports of the Manpower Demonstration Research Corporation on the results of the Youth Incentive program experiment funded under the Youth Demonstration Projects Act of 1977. The program provided more than 76,000 disadvantaged youth with work experience provided they returned to or remained in school in good standing. The most significant results were that black youth employment doubled in the targeted areas, drop-out rates were dramatically reduced, and a significant number out of school chose to return -- all at an average cost of about $2000 per participant. I believe that efforts of this kind could be initiated within the current budget constraints, although it would require shifting priorities.

Addressing the problem of one-time, large-scale localized dislocation which results from permanent plant closings is one of the most important political problems to resolve -- a problem which causes us continual concern. The failure to deal adequately with this problem could lead to numerous protectionist and other industrial policies that would prevent necessary structural realignment.

This next week, the CED trustees will be considering a series of policy options devoted to this problem. I am not in a position, today, to tell you precisely what they intend to recommend, although for the most part, the CED trustees share the "gradualist" view of the problem. However, they do see a need to initiate both private and public responses to assisting dislocated workers. The private responses they are considering include:

- instituting agreements between labor and management on jointly sponsored programs to assist permanently displaced workers; *
- adjusting the level and structure of employment compensation, where wage differentials have been a major factor in a firm's competitive position;

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* A well known example is the "Downriver" project now being operated under joint sponsorship by the UAW and Ford Motor Company.

- adjustment assistance in response to plant closings, of a voluntary nature, which might include prenotification, severance pay assistance, extension of benefit coverage and cooperation with public sector training and relocation programs. **

Among the public options are:

- greater utilization of the provisions of Title III of the Job Training Partnership Act, working through the private industry councils established under JTPA.
- general reform of the Unemployment Insurance system to make it more effective in providing transition assistance, which could include resolving the current UI deficits; instituting a minimum uniform waiting period of 10 days to 2 weeks before program benefits begin; instituting mandated job search seminar during the waiting period, and possible, instituting a second tier to the UI system to provide a separate account which would be used by permanently dislocated workers to finance their retraining;
- liberalizing state laws to enable those receiving UI to participate in training.

The CED is considering a number of specific approaches under the various options, particularly with respect to the new training account. Since the trustees have not officially voted on which approach to pursue, I will elaborate on what I believe are the essential principles which any proposal should contain and then briefly comment on two such proposals -- one developed by Kenneth McLennan of CED; and the second by Malcolm Lovell of the Brookings Institute and Pat Choate of TRW.

** A series of recommendations along these lines can be found in the Business Roundtable (BRT) position papers on plant closings (Washington, DC: BRT 1983, Mimeograph).

In my opinion, since it is extremely difficult to judge the rate of change, or the seriousness of the dislocated worker problem, any policy should:

1) be flexible and responsive to demand;
2) be tied directly to currently employed workers;
3) be self-financing;
4) be voluntary, or, if mandated, offset by strengthening the UI experience rating;
5) if tied into UI, be designed to discourage staying on UI for an extended period of time;
6) encourage early job search and counseling;
7) be operated in conjunction with a greatly improved employment service.

None of the proposals I intend to discuss satisfy this last point: the management problems of the Employment Service. I am particularly concerned about the lack of attention that has been paid to the ES. This agency is one of the most important government tools in the labor market, yet it continues to suffer from serious administrative problems. I will now briefly comment on these proposals.

Malcolm Lovell/Pat Choate *

This is a combined proposal, involving two tiers. The first

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* Malcolm Lovell is now associated with the Brookings Institute and Pat Choate is Senior Economics Analyst at TRW, Inc.

part is a basic program with broad eligibility criteria providing intense job search assistance coupled with vastly improved labor market information, education and training options, and where necessary, income support beyond the normal 26 weeks of unemployment insurance. The second part of this approach is an optional self-financing individual training account (ITA) designed to provide additional resources which an individual can use both for extensive retraining and for relocation.

For both programs, the term "dislocated worker" is defined to include any laid-off employee with 4 years of covered UI employment who has been certified by his or her former employer as unlikely to return for work in that company within a six-month period. This is an effort to distinguish these individuals from "disadvantaged" and from those who are "cyclically" unemployed and are likely to be recalled. The definition is also designed to exclude those workers who have the capability of moving from one company to another and will not require special assistance. Unlike the Trade Adjustment Assistance Program, it does not require the government to make a finding that a specific industry is "declining" for a laid-off worker to be eligible.

Once certified, a laid-off worker will be offered a choice to join a "basic program" or to proceed independently to find new work. If he or she chooses not to opt for this program after a four week period, the options would be foreclosed.

The basic program requires the participant to engage in a forty-hour-a-week schedule of job search, during which time, if a "suitable" job offer is made, the individual would be required to take it. If no job is found, after 8-12 weeks of intensive job search and counseling, then education and retraining opportunities would be made available. Certification of the training would be made through the States, either through the newly established PICs, the ES, or some other arrangement. A voucher would be provided that would cover the full cost of a relatively short retraining effort and a percentage of the cost of a longer-term program. After successful completion of training a participant would be eligible to resume the job search process until a job was found.

This training part of the program would be financed through a "user tax" to be paid in equal measure by employees and employers in a payroll tax. The authors envision a levy of .01 cent an hour on employers and a similar amount on employees which would raise the targeted amount of about $3 billion estimated to be the overall cost of such an effort. This amount would be placed in a separate trust which could not be borrowed against.

The second tier of the program would be an individual training account, very closely modelled on the existing IRAs. Similar to whole life insurance programs, a premium would be paid of approximately $116 each to an insurance fund (this equals about 18% in wages up to a maximum of $250). The contributions would be tax deductible. Part of the premium would cover workers laid off before their individual fund builds up to the maximum of $4000. The account would accrue interest at existing government rates. If not used for training, it could be drawn for retirement, under the same conditions that apply to IRAs.

A worker could draw on this fund for financing training at any time after being certified as dislocated. However, a worker would have to take this option to remain eligible for receiving supplemental UI benefits.

Interestingly enough, this latter approach is in keeping with an effort made by Senator Dan Quayle to allow certified dislocated workers to drawn down their IRA without tax penalty, except it is much more specific and limits the use of the funds for the single purpose of training.

Unlike the first "tier", this latter tier is voluntary.

The McLennan Proposal *

Dr. McLennan's proposal shares many aspects of the Lovell/Choate concept except that it works directly with UI

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* Dr. Kenneth McLennan is Vice President and Director of Industrial Studies at the Committee for Economic Development

financing arrangements to provide for more effective experience ratings and a longer waiting period.

Dr. McLennan would also establish an Individual Training Account, to be financed by a portion (about 10%) of the employer tax. Each account would be fully funded, and interest would accrue to the funds credited to it. Eligibility would be similar, with an employer certifying dislocation and continuous labor market experience of 5 years. Unlike the Lovell/Choate approach, the accumulated funds (which would accrue to approximately $3000 after 10 years in an interest-bearing account) could be used solely at a worker's discretion and for whatever purpose the worker envisions. Dr. McLennan believes that only the worker knows his or her most important needs. In essence, Dr. McLennan's proposal is a savings system that provides the workers with a cash resource to assist in transition.

Dr. McLennan also proposes allowing workers at the 26 week period to utilize the value of 50 to 75 percent of the 13-week Federal extended program as a reemployment voucher. He estimates that the value of the voucher would amount to from $750 to $1125 to be used as a cash incentive to employers to hire the long-term unemployed. A more detailed description of this approach is provided in the appendix.

While I have difficulties with various aspects of these proposals, they nevertheless meet the conditions I have enumerated above in any "dislocated worker" program. They are flexible and market oriented; they provide a number of options and are tied to the individual workers; they are, in most respects, self-financing; and they emphasize early job search and training.

These proposals are essentially directed to those who lose their jobs through permanent "lay-off" and of these, to those who have strong labor market attachment. In general, they are not directed to those who lose their jobs because of broad applications of technology and changing skill requirements which can occur through the occupation spectrum. If such dislocation does occur, much of it will take place in services, where the concept of a "layoff" does not really exist.

Marc Bendick of the Urban Institute raises an interesting point in this regard in a paper he released in February of last year. He argues that: "the problems of dislocated workers are more appropriately addressed if dislocation is seen less as a characteristic of an identifiable population of individuals than as a recurrent temporary condition in the career of the majority of workers."[6] Mr. Bendick argues that any retraining system should be made available to all workers, whether on the job or not, and proposes that we look at the French model. In essence, the French approach is a social insurance fund for mid-career training. The fund is derived solely from corporate taxation, estimated to be about 1.6% of a firm's total wage bill. Employers are allowed to "satisfy" this requirement by (1) financing internal training; (2) making a financial contribution to a training insurance fund, jointly sponsored by employers, employer associations and unions; contributing to other training institutions; and/or (4) contributing to government sponsored training institutions.

Under this approach, funds would be made available to those "on the job" to obtain training, either to upgrade their existing skills or to obtain new ones. Both living benefits and tuition payments would be available to those who lose their jobs.

Although there are considerably different administrative arrangements, there really isn't a great deal of difference in purpose between that of Mr. Bendick's and that of the other approaches I have mentioned, except for allowing currently employed workers to obtain additional training. And if we do discover "dislocation" to include a large number in the general economy, these other proposals could be modified to take this into account.

Although he supports the notion of a training insurance fund, Mr. Bendick does not believe that there will be much of a need to retrain dislocated workers, whatever the cause of their dislocation. He argues that most dislocated workers will either (1) be rehired by their former employers; (2) find similar employment elsewhere;

(3) obtain new jobs where there is either no training requirement or where the training is provided by new employers; or (4) drop out of the labor market for personal reasons, such as retirement, or in the case of two-worker families, where one elects to stay home with the family.

Empirical evidence tends to support this case. Although, as I will discuss below I believe we are experiencing a somewhat different situation among our currently dislocated workers particularly in our unionized industries.

If this is true, then considerable emphasis on job search is justified. In his paper, Dr. Bendick states that "job search" is the key. He argues that most unemployed workers lack job search skills; and that we do not have in place adequate institutional arrangements to provide them with these skills. He argues that as a possible model we look to the Canadian Manpower Consultive Service (MCS) which is heavily involved in providing job search and consultive services to dislocated workers and works primarily through local employer-union committees. In some respects, this is the approach that has been taken by the UAW-Ford "Downriver" project in Detroit. Mr. Bendick also argues that we look at "job clubs" as a possible device.

I share his enthusiasm for "job clubs". While serving on the staff of the House Education and Labor Committee, we undertook a field survey of a number of such experimental "clubs" and frankly, we were quite impressed. Such clubs tend to provide the institutional focus and emotional support that unemployed workers need when they are looking for a new job. In addition, they can provide considerable training in technique. Anyone who has had to look for work knows that job search is an acquired skill, and for those of us who have enjoyed a long labor market attachment, we have not had to learn it. This is particularly true for those with seniority in our heavy industries.

But I do not believe "job clubs" can do it alone. One of the points Mr. Bendick makes in suggesting that dislocated worker do not need training is that workers can obtain new jobs where no training is required or where employers provide the training. This would be true for job replacement which is of comparable wages or for those who have transferable skills. It is not true for those who have enjoyed a wage premium and do not have transferable skills. As Wachter and Washer suggest the problem in our heavy industries is not the availability of jobs, but of the wage differentials.

From my experience on the assembly line -- I worked at the Chrysler Lynch Road axle plant in the late '60's -- the wages were high (at the time they represented a small fortune to me) but the jobs were extremely dull and not demanding of a great deal of skill. If I had chosen to stay at the plant for the last 15 years, I would not have had much in the way of transferable skills. (As it is, I would not have been able to, since the plant was closed several years ago).

For most in this category, the jobs that are available are much lower paying. The fundamental question, in my mind, is how much obligation society has, be it the corporation, the union, or the government, to help these individuals obtain comparable paying jobs.

I doubt, it will be possible to ever devise a scheme that guarantees a direct transfer, nor do I believe we should. The jobs simply aren't there. But I do believe training can help workers minimize the wage loss, and can help to a considerable extent. I know of one example where training has lead to a fairly comparable wage, and that is a truck driving school that has been set up in Delaware expressly designed to retrain auto workers.

But I do believe the cost should be equally distributed, and this is why I find the concepts proposed by Messrs. Lovell, Choate and McLennan do have merit. They are premised on a jointly shared obligation by employers, employees and to some extent, the government, in providing some protection for workers in an increasingly uncertain environment.

Despite my support for the notions expressed in these various proposals, they must be tested on the basis of some important realities. First, it is extremely difficult to define just who is "dislocated". Estimates range from 100,000 to two million. The fact is we do not know the characteristics of the "average" dislocated worker, be it in terms of age, sex, educational achievement, career patterns, or family situations. All of these proposals make a somewhat arbitrary definition. And while I believe they are about as good as any we can devise at the moment, I believe we need to know a good deal more about just who we are talking about before forging ahead.

Second, is the problem of just who is to "foot the bill", and whether the arrangement should be mandatory or voluntary. Although I support the idea of "cost-sharing" it will be extremely difficult, both practically and politically, to define what one means. And if a system is to be mandated, considerable hurdles have to be overcome if employers are to be willing to pay a new "tax". If voluntary, sufficient incentives need to be put into place, but what these are again raise a number of thorny issues.

Third, there is the fundamental problem of management capability of our existing labor market institutions and the financial crisis of our current UI program. Despite years of sometimes serious, but usually half-hearted attempts, neither of these problems have been resolved.

Fourth, all of these proposals would do little for those who are now dislocated. All we have available currently is Title III of JTPA. And while I believe this program can help, the fact is that to cover all those now out of work would require a vast expansion of this effort, a near impossibility in light of current budget constraints. It would be difficult to institute any new approach for future dislocation when those currently unemployed are not being dealt with.

Finally, if a new approach is tried, I would strongly urge that it be market tested. It would be a serious mistake not to do so. There are simply too many unanswered questions on administrative and other arrangements that need to be addressed, but can only be addressed after seeing a porgram in operation.

Despite my reservations, underlying each notion -- a notion I am sympathetic with -- is that training assistance that is tied to the worker can ease transition difficulties, much the way the GI bill served as transition for millions of veterans into a peace-time economy. We often forget that one of the greatest structural changes that this economy went through was after World War II when an entire industrial base was shifted almost overnight. In my view, the GI bill was in no small measure responsible for making that transition as successful as it was.

These proposals reflect that we are again going through a transition, of a different sort, and perhaps less dramatic, but they see the human resource element as important to assuring an effective transition, and this is a view I share. I would hope that ideas of this sort are looked at carefully and not dispatched because of a sense that this is not the time to try something new.

LISTING OF FOOTNOTES CONTAINED IN TESTIMONY OF NATHANIEL SEMPLE BEFORE THE JOINT ECONOMIC COMMITTEE
September 26, 1983

1. See U.S. Long-term Review Summer 1983, Data Resources, Inc. 1.76 to 1.84.

2. The clearest statement of this view can be found in "The Future of Work", a report of the AFL-CIO Committee on the Evolution of Work, August 1983. Also see Pat Choate, Retooling the American Work Force: Toward a National Training Strategy (Washington, DC: Arrow Printing Service, Northeast-Midwest Institute, July 1982).

3. A number of statements sharing this view can be found in High-Technology, Public Policies for the 1980s, a National Journal Issue Book. See, particularly, articles by F. Carl Willenbrock and Pat Choate.

4. See Michael L. Wachter, "Labor Market Policies in Response to Structural Changes in Labor Demand", (Pennsylvania: Department of Economics, University of Pennsylvania); William L. Wascher, Board of Governors, Federal Reserve, a paper presented to the Jackson Hole Symposium, August 1983); also, Kenneth McLennan, "Employment and Training Strategies in a Changing Economy" (a paper prepared for the American Enterprise Institute Public Policy Forum on Conditions of Growth, December 6-9, 1982).

5. See David O'Neill, "Labor Market Problems of Teenagers Result Largely from Doing Poorly in School" (Washington, DC: U.S. Government Printing Office, March 29, 1983).

6. Marc Bendick, Jr. Workers Dislocated By Economic Change: Towards New Careers for Midcareer Worker Transformation. A Research Paper by The Urban Institute, February, 1982.

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UNEMPLOYMENT INSURANCE: TO HELP DISLOCATED WORKERS

Kenneth McLennan

In the 50 years since its enactment under the New Deal, Federal-state unemployment insurance (UI) has been extended to cover almost all workers. Moreover, qualifications for benefits have been systematically liberalized. In 11 states, benefits are paid on the first day of unemployment. The remaining states pay benefits after one week of unemployment.

Unemployment insurance has broad national support. The conventional wisdom, frequently expressed by officials and interest group leaders, is that UI is our most successful labor market program and is based on sound social insurance principals.

This view of the program is completely unjustified.

Many state UI trust funds are today in a desperate financial position. By January 1983, 19 states had borrowed a total of $8.3 billion from the Federal government in order to meet the UI payments to which they will be liable this year. Those will total some $25 billion.[1] Meantime, "overpayments" to unemployed workers constitute a substantial waste of UI resources. When the current recession ends, many state trust funds will still be in deficit.

The well-intentioned expansion of the program (see box, "Overview of the Unemployment Insurance Program") has been accompanied by policy changes much at variance with the original goals of the program. These were described by John R. Commons, whose students at the University of Wisconsin played a decisive role in establishing Wisconsin's precursor Unemployment Insurance program and later were significant figures in the New Deal ferment in

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[1] The recent extension of Federal Supplemental Compensation will, in fact, bring total UI expenditures to some $30 billion.

OVERVIEW OF THE UNEMPLOYMENT INSURANCE SYSTEM

The Federal-state unemployment insurance (UI) system was established almost 50 years ago to provide workers who were firmly attached to the labor force with income support when they were laid off during a recession. It has also assisted employers by maintaining a minimum level of consumer purchasing during economic downturns.

Components

There are three component parts of the system: regular UI, Extended Benefits (EB) and Federal Supplemental Compensation (FSC).

Regular UI

Ninety-seven percent of the work force is covered by this program. Each state has its own program. State law prescribes tax structure for financing the system, eligibility for benefits, and benefit levels, but must conform to Federal standards.

- Financing:

  UI is financed almost entirely by a tax on employers. The taxes are determined and collected by the state system and placed in the state's UI trust fund. However, the Federal government is crucial in determining the tax rate by levying a 3.5 percent tax on the first $7,000 paid in wages to each employee but providing up to a 2.7 percent tax credit to employers for taxes they pay to the state UI programs. The difference between the Federal tax (3.5 percent) and the credit (2.7) is 0.8 percent which the Federal government uses for administration of the system, for a loan fund for states to draw upon and for financing part of the Extended Benefits.

  The states do not tax all employers at the 2.7 percent rate. Each state has a range of rates (from 0 to 7 percent) and an employer's tax rate will depend on his experience with unemployment. These state

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experience-rating systems tax employers at higher rates if they frequently lay off employees, and at lower rates if employment is more stable. The taxable wage base also varies by state and can be as high as $14,000.

Because many UI trust funds are in deficit, the tax rates will rise substantially in 1985. The current 2.7 percent tax credit will rise to 5.4 percent.

- Eligibility for Benefits:

Worker must have been laid off involuntarily and have worked for a certain number of weeks in the past year. For the full 26 weeks of benefits the eligibility varies among states from 12 to 52 weeks of work during the past year.

To continue to receive benefits, an unemployed worker is supposed to be actively seeking a job, but the enforcement of this "work test" is very weak, as is the assistance given (by the U.S. Employment Service) to help the unemployed worker find another job.

- Benefits:

Benefits vary by states. In all states, however, benefits vary according to the worker's previous weekly wage. The objective is to provide benefits equal to about 50 percent of the average worker's weekly wages, but there is a maximum cap on the benefits, so high paid workers do not receive 50 percent of their previous wage.

The previous weekly wage is usually calculated on the highest quarterly wages during the past year. This provides seasonal workers, and workers whose wages fluctuate during the year, with high benefits compared to their annual earnings.

In the early years of the program, benefits were not paid until the worker was unemployed for three or four weeks. Now this "waiting period" is either one week or payment starts from day of unemployment.

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Extended Benefits (EB)

UI claimants who exhaust their regular benefits may receive Extended Benefits (for 13 additional weeks) if the EB program is "triggered on" by high unemployment. EB is financed 50 percent by Federal government and 50 percent by state taxes on employers. To receive EB, the worker must have worked 20 weeks in the year prior to the original period of unemployment.

Federal Supplemental Compensation (FSC)

This temporary program was extended beyond March 31, 1983 and UI claimants who exhaust their regular UI and Extended Benefits, and are in high unemployment states, can now receive between 8 and 16 weeks of additional UI payments. These benefits will be financed entirely out of Federal general revenues.

the first term of Franklin D. Roosevelt's administration:

> The laborer has been encouraged by society to fit himself for a trade, and when his trade is abolished in the interests of society, the employer first, and society ultimately, should share the loss with him.[2]

Despite this clear-cut goal, UI to this day fails to help shorten the length of time in which workers must cope with unemployment. Nor does the program improve the ability of permanently dislocated workers to adjust to changing labor market conditions. Indeed, the UI program actually encourages unemployment and discourages workers from improving their job skills.

Major reform of the UI system is long overdue. The challenge is to reform the system so that it can actually assist workers to adjust to economic change, and also help those enduring the greatest hardship from unemployment.

The news media have often cited individual abuses under the UI system. For example, on the April 21, 1983 *Phil Donohue Show*, it

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[2] John R. Commons, 1899. Quoted in Gerald G. Somers, ed., *Labor Management and Social Policy* (Madison: The University of Wisconsin Press, 1963) p. 263.

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LOCKED GATE. Ford Motor Company assembly plant at Mahwah, N.J. stands permanently shut.

was claimed that in preparing a newspaper story, a writer had obtained approximately $5,000 in UI benefits by registering at a state UI office in Utah and falsely claiming that he had been laid off by nonexistent firms. In New York State, an individual made up the names of 28 corporations and 168 identities, and obtained $600,000 in benefits before he was apprehended.[3]

To be sure, it is thought that no more than 2 percent of UI benefits is obtained by means that can be classified as legal fraud. Nonetheless, estimates have it that 7 to 10 percent of benefits paid in several cities represent overpayments caused when applicants under-report their incomes. In some cities, improper payments are as high as 20 percent of total benefits paid.[4]

Disincentives

The effectiveness of the program is also undercut by the work disincentives that the UI program embodies. The rate of unemployment is consequently increased, probably by about 0.7 percentage points during periods of relatively low unemployment. A 0.7 percent rise in the unemployment rate increases expenditures for unemployment insurance by approximately $2 billion.[5]

In fact, the work disincentives of the UI sustem may effectively undercut its intended subsidy of a worker's search for a new job.

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[3] See Comptroller General, *Unemployment Insurance—Need to Reduce Unequal Treatment of Claimants and Improve Benefit Payment Controls and Tax Collection* (Washington, D.C.: U.S. General Accounting Office, April 5, 1978) p. 67.

[4] This estimate is based on the results of detailed research of the administration of the UI system in several cities. See Paul L. Burgess and Jerry L. Kingston, "Estimating Overpayments and Improper Payments," In National Commission on Unemployment Compensation, *Unemployment Compensation: Studies and Research*, Vol. 2 (Washington, D.C.: U.S. Government Printing Office, 1980) pp. 487-426.

[5] By returning to work, the worker's income (or additional family income) is taxed and additional job-related expenses occur. As a result, the worker's (or family's) additional net income from returning may not be much higher than a weekly benefit amount under unemployment compensation. See Richard A. Hobbie, *Work Disincentives in the Unemployment Insurance (UI) System* (Washington, D.C.: Congressional Research Service, Library of Congress, 1980).

One study of job search behavior found that only about one-third of all UI beneficiaries were actively seeking work during the week of the survey. While there may well be legitimate instances in which an unemployed person fails to look for work—particularly during a severe recession—one-fifth of beneficiaries indicated they were generally not interested in working.[6]

Unemployment is expected to remain high throughout the remainder of the decade. Consequent expenditures on UI benefits are likely to be in the $15 billion range annually over the next several years. If unemployment continues chronically, it may be that the work disincentive effect typically created by the program will be reduced.

Nonetheless, overpayments and overuse of the system by some employers and workers will significantly distort the effectiveness of the labor market. If the overpayments revealed in several cities are extrapolated in the entire Federal-state UI system, the cost of this misallocation to the Federal government and states could amount to $2 to $3 billion annually.

Even when the national debt nears $1.3 trillion and we face annual budget deficits of $200 billion, the sum of $2 to $3 billion is not to be shrugged off. In comparison, $3.8 billion was appropriated in 1983 for the Job Training Partnership Act. Title III of this Act, the Federal government's one serious effort to retrain dislocated workers, has only a $125 million appropriation. The somber reality is that waste and abuse in the UI program cost more than the Federal government spends assisting dislocated workers adjust to economic change.

Reforms to Reduce Instability in Employment

Several major reforms are necessary if the UI system is to encourage employers to conserve their labor resources and contribute to a reduction in cyclical unemployment.

- *Strengthen the relationship between the firm's unemployment experience and the UI tax that it pays.*

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[6] See Matthew Black and Timothy J. Carr, "Analysis of Non-Search," in National Commission on Unemployment Compensation, op. cit., pp. 527-542.

IIGAN EMPLOYMENT SECURITY COMMISSION

LONG, LONG LINES. Michigan jobless in a line that trails out the door and into the parking lot.

In many states, the current cap on the maximum tax rate means that more and more employers are paying the maximum UI tax rate. If these employers initiate additional layoffs, their UI taxes are not increased. They are "deficit" employers. More is paid out to their laid-off workers than the amount they pay into the trust fund in taxes.

The additional cost to the system is paid by the employers (and their employees) whose employment records are more stable. The tax of employers at the minimum tax rate is usually increased in order to help finance the trust fund. One consequence of this, however, is to weaken the experience-rating structure of the UI tax. Companies with stable employment are penalized and end up subsidizing employers at the maximum tax rate.

In the past, the beneficiaries of the subsidy were the employers, and the workers, facing seasonal variations in demand and abnormal uncertainties about future earnings. In some cases, these employers exploited the UI system by using easy access to UI benefits as an additional source of income for their workers. The current degree of subsidization is unnecessary; seasonal fluctuations in demand, in such industries as construction, are much less than in the past. In any event, seasonality and precariousness in earnings have always been reflected in wage rates. Long ago, Adam Smith observed:

> Employment in some trades is much more constant than in others....What [the worker] earns, therefore while he is employed must not only maintain him while he is idle, but make him some compensation for those anxious and desponding moments which the

thought of so precarious a situation must sometimes occasion.[7]

Recent changes in Federal policy make it possible to reduce the unnecessary subsidization of employers in some industries. In 1982, in order to improve the solvency of state UI trust funds, the Federal government prescribed that by 1985 all states must have a maximum UI tax rate at or above 5.4 percent. Some 32 states will have to raise their maximum UI tax rate by 1985. To ensure stronger experience rating, the Federal government should consider requiring the states to retain their current minimum tax rate when the maximum rate is raised. As a result, the range of taxes paid by employers will be more evenly distributed between a wider minimum and maximum tax rate differential. This will strengthen the experience rating concept and encourage employers to plan for more stable employment patterns in the management of personnel.

In the past, Martin Feldstein, the current chairman of the Council of Economic Advisers, suggested an alternate way to strengthen experience rating and avoid overuse of the system. He proposed that all of the cost of the first month of a laid-off worker's UI benefits be charged to the worker's former employer.[8]

Stronger experience rating will also reduce "overpayments" in the system. If employers are charged directly for a higher proportion of their layoffs, they will monitor the claims of their former employees more carefully. Employers will have a stronger incentive to challenge the local UI office's decision to raise the employer tax if they believe they are being charged for a false application for UI benefits.

- *Require that all states have a waiting period of at least 10 days.*

Eleven states now have no waiting period; in the remaining states the waiting period is one week, except New York State which has an effective period of four days. As in the case of health insurance, the concept of "no deductible" makes no sense. The absence of a waiting period encourages employees to overuse the system.

[7] Adam Smith, *The Wealth of Nations, 1776* (New York: Random House, 1935) p. 103.

[8] See Martin Feldstein, "The Effect of Unemployment Insurance on Temporary Layoff Unemployment," in *American Economic Review*, Vol. 68, no. 5 (December 1978) pp. 834-846.

Without a strong experience-rating system, many employers are not charged for this cost by having to pay higher taxes.

In the interest of equity, it would be much more appropriate to use the resources saved by the longer waiting period to assist the long-term unemployed. For example, if the waiting period was 10 days, the traditional 26 weeks of regular UI benefits would begin after 10 days and continue into the 27th week of layoff. Laid-off workers would bear the initial cost of 10 days without UI benefits, but part of the cost would also be borne by employers, through provisions in collective agreements or through the potential loss of the laid-off employee who may seek alternate employment. This policy change would reduce the incidence of cyclical unemployment by discouraging lay-off of employees during downturns in economic activity.

- *UI benefits should be paid only after the worker completes a job search seminar.*

The key to rapid reemployment is to motivate the individual to search for employment and improve his job search skills. In practice, the U.S. Employment Service referral of unemployed workers to registered job openings has had little success. One factor is that the referral process is seen as a means of enforcing the work test which requires that an employee actively seek employment while receiving UI benefits. In fact, the job search process, in itself, is somewhat futile. Great numbers of people have little idea as to how to find a job or to present their own capabilities. We could imbue all of this with a far greater reality if receipt of benefits were contingent upon successful completion of a government-sponsored job search training course.

Whenever an employee registers for UI benefits, he should be required to register for such a job search training course during the first week of unemployment. During these courses, workers can be given group counseling so that each individual can realistically assess his or her own employment prospects. Experience has shown that unemployed workers are much more likely to find employment on their own rather than through referrals to possible job openings by the Employment Service. Consequently, the job search course should give the unemployed worker some practical training in how to present his or her skills to employers and how to learn about the sources of labor-market information in the local area.

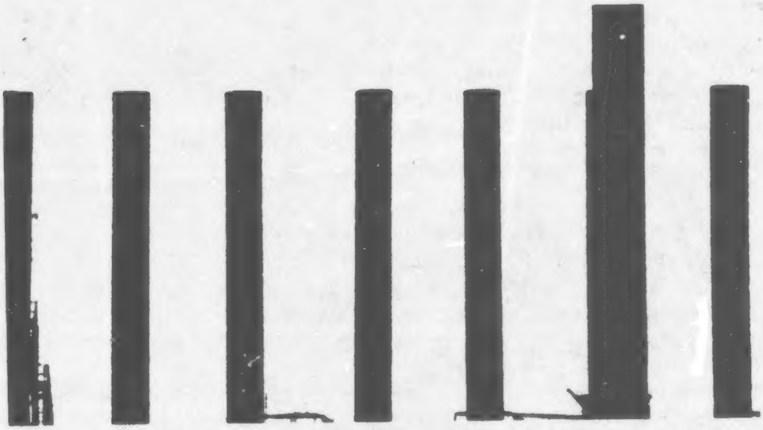
- *Taxing all UI benefits will reduce work disincentives.*

The average length of each spell of cyclical unemployment would be shortened if the work disincentives built into the system were completely eliminated. To remove such disincentives, the exemption of at least a portion of UI benefits from taxation should be gradually ended. Public thinking is becoming attuned to this sort of development. The recently enacted taxation of Social Security benefits paid upper-income retirees is a case in point. Ultimately, all transfer payments should be included in taxable income. This would improve the efficiency of the UI system and be consistent with the principle of equity in social policy.

- *Facilitate reemployment of dislocated workers*

Economic change is a constant process. Fluctuations in the demand for goods and services are important causes of unemployment. Between 70 and 80 percent of workers who experience "cyclical" unemployment return to their previous employer after a short layoff. In 1981, when the unemployment rate was about 8 percent, the average length of unemployment for *all* workers unemployed was 13.3 weeks. The UI system provided income maintenance to these workers as they searched for other jobs or until they returned to their previous employer. However, some workers are laid off because of permanent changes in demand, including changes in technology, national priorities, and trade patterns. Such structural economic change was a continuous process throughout the 1970s and early 1980s, as it has always been. Poor U.S. productivity performance compared to more rapid productivity growth abroad contributed to the loss of comparative advantage of a number of U.S. industries. Much of the traditional U.S. industrial base has, as is so well-known, entered a new era in which its competitive advantage has deteriorated.

While most unemployed workers from these industries, including the long-term unemployed, will return to work after the economy fully recovers from the recession, some will never return to their previous jobs. These workers have been permanently dislocated by structural economic change. There are no precise data on the size of the dislocated worker population. Nonetheless, it



SMOKELESS SMOKESTACKS. U.S. Steel plant at Youngstown, Ohio stands idle in 1980, with 3,500 workers off the job.

has been estimated that in any year, between one-half and one percent of the labor force is structurally dislocated and needs special reemployment assistance. Many of the workers are concentrated in "smokestack" industries located in the nation's traditional industrial regions of the Northeast and upper Midwest.[9]

The U.S. labor force has always exhibited a high degree of occupational mobility in response to a changing economy. Over 1977 to 1981, about 20 percent of those employed were either laid off or left their jobs. Almost half of these workers moved to different occupations one year after being laid off by their previous employer.[10]

For high-paid, experienced workers, labor market mobility is more difficult. The pressing need is to modify the UI program so that in the future when an experienced worker's "trade is abolished" he will have the resources, and the incentive, to adjust to change.

- *Modify UI system to assist permanently displaced experienced workers.*

This could be achieved by including an individual account as a second tier within the current system. Tier I would be a modified version of the present system with more effective experience rating and a longer waiting period. The individual account proposed as an addition would be financed by a portion (perhaps 10 percent) of the employer tax. Each account should be fully funded. Interest should accrue to the funds credited to it.

[9] For review of the estimates of the magnitude, see Kenneth McLennan, "Employment and Training Strategies in a Changing Economy," (Washington, D.C.: American Enterprise Institute—Public Policy Forum on Conditions of Growth, December 6, 1982, photocopy)

[10] Based on unpublished data supplied by the Bureau of Labor Statistics, U.S. Department of Labor.

The eligibility conditions under which a worker could draw upon the account might include: (1) permanent displacement, perhaps with the employer certifying that the worker will not be rehired because of the permanent elimination of the previously held job and (2) continuous labor force experience of five years prior to permanent layoff.

For the average employer, the 10 percent contribution would be offset by the cost savings achieved through improved experience rating and a minimum mandatory waiting period. Given the current average cost per employee for the UI system, it would take about 10 years before workers would have an average of about $3,000 (in current dollars) in their account. More importantly, however, the funds in the individual account would accumulate with work experience and would be available for those who are likely to have greatest difficulty in adjusting to structural change—workers with a substantial work history.

It is important to permit the worker to have control over the way the funds in the individual account are utilized once he or she is eligible to draw on the account.

> *The amount of withdrawal and whether it is taken in the form of income maintenance, retraining or relocation should be the worker's decision. Only the individual can properly decide which type of investment in his or her human capital is likely to lead to successful labor market adjustment.*

Workers should have the maximum incentive to readjust quickly after permanent displacement. Accordingly, it is probably desirable for some portion of the accrued balance in their accounts, plus interest, to go to them upon retirement.

Another approach, which in the long run would achieve the goal of providing workers with financial resources for adjusting to change, was introduced by Senator Dan Quayle (R. Ind.) in his Economic Opportunities Act of 1983 (S. 242). In this bill, which is currently being considered by the Senate, displaced workers (as defined in the Job Partnership Training Act) would be permitted to withdraw funds from their Individual Retirement Accounts without the 10 percent penalty specified in the Internal Revenue Code.

The probability that this innovative feature of the Economic Opportunities Act of 1983 will be enacted is doubtful. The main problem is that there is currently no co-sponsor in the House of Representatives. Indeed, in the House, the major initiative to assist those permanently dislocated and the long-term unemployed is simply in typical New Deal fashion to pay out more on public employment programs and public works.

Many unemployed workers believe that they have made an individual contribution to the UI system in the past and that this is what entitles them to receive benefits when they become unemployed. The advantage of both the individual account as a second tier in the UI system, and the use of Individual Retirement Accounts for assisting dislocated workers, is that individuals would be encouraged to plan for the possibility of being permanently displaced.

Employers should share part of the cost of providing employees with this form of protection. Consequently, if the Individual Retirement Account change is enacted, the government should consider amending the Employee Retirement Income Security Act (ERISA) to require that employers provide payroll deductions for any employee who voluntarily wishes to save for his or her own Individual Retirement Account. This will encourage the expansion of IRAs and employers will also have the option of contributing to their workers' IRAs as a form of employee protection for retirement and/or readjustment assistance in the event his employee becomes permanently dislocated.

Many state laws do not permit UI beneficiaries to engage in training programs while receiving UI benefits.[11] This "economy" is altogether counterproductive. The Job Training Partnership Act recognizes this problem and Title III encourages a link between receipt of UI and retraining programs. It would permit up to half of a 50 percent state-match requirement to be state UI payments to eligible participants. Senator Quayle has proposed that his link be extended to student loans and Basic Education Opportunity Grants.

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[11] State UI systems should be encouraged to experiment with integrating retraining with the UI system. Some countries allow unemployed persons taking training courses to continue receiving UI. Canada, for example, allows trainees to continue receiving UI for the duration of the training course, even if entitlement would normally lapse in this time, and then provides a further short extension (up to six weeks) to cover a period of active job search on completion of the course. However, there can be other uses; the Netherlands allows unemployed persons being given on-the-job training by a firm to continue receiving benefits. Organization for Economic Cooperation and Development (OECD), *A Review of Member Countries' Experiences in Alternative Uses of Unemployment Insurance Money*, Restricted Document (Paris: OECD, October 1982) p.6.

> *The cost of hiring a permanently dislocated worker (and other long-term unemployed workers) should be reduced by permitting the worker to convert extended UI benefits (the Federal allocation paid after the regular 26-week program) into a "Reemployment Voucher" to be paid to his or her new employer.*

The value of the voucher might be 50 to 75 percent of the value of the 13 weeks under the Federal extended program or any remaining weeks for which workers would be eligible if they remained unemployed during the entire extended period (i.e., currently 13 weeks). This voucher could be offered to an employer who provides the worker with a job which represents an incremental increase in the employer's work force. The employer would receive the value of the Reemployment Voucher in quarterly payments from the state UI system.

The incremental wage subsidy through the Reemployment Voucher should end after about a year. Otherwise the program would eventually be paying employers to hire workers they would have hired anyway. Also, employers should not be subsidized for hiring during the later stages of an economic recovery.

The value of the voucher presented the employer by the average worker receiving extended benefits would be about $750 at 50 percent and $1,125 at 75 percent of the average value of extended benefits. For many employers, this would be a significant incentive to hire a worker who has experienced long-term unemployment.[12] At the present time, the State of Delaware has taken the initiative by establishing an experimental program using a form of the Reemployment Voucher which includes training and relocation services. More flexible use of UI benefits, to assist the long-term unemployed and those dislocated by structural change, is of growing interest to policymakers at all levels of government.

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[12] In 1982, the cost of the Federal extended program was $1.8 billion. If the cost is the same for 1983, the Reemployment Voucher would only result in a net increase in expenditure once 2.5 million workers became eligible for extended benefits under 50 percent of the value of 13 weeks of extended benefits (1.66 million workers for 75 percent). See testimony of Kenneth McLennan on Policies to Stimulate the Hiring of the Long-term Unemployed and Permanently Displaced Workers before the Subcommittee on Employment and Productivity, U.S. Senate (97th Congress, 2nd session, January 12, 1983). This concept of a Reemployment Voucher was included in S. 242 and is supported by the administration.

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The need to experiment with the uses of the UI system is clear. In the future, UI benefits should continue to assist workers' search for jobs as well as provide important countercyclical income maintenance. However, during 1983 the cost of unemployed workers, both to their families and to society, will be high. The issue is whether we can design a more efficient UI system by reducing the overpayments and work disincentives inherent in the current system while allocating more of the resources to those who really need reemployment assistance.

The views expressed by Dr. McLennan, an officer of the Committee for Economic Development, do not necessarily represent the thinking of the CED trustees or their organizations.

REPORT OF THE DESIGN COMMITTEE ON THE BUSINESS-EDUCATION RELATIONSHIP

OWEN B. BUTLER, CHAIRMAN

November 3, 1982

November 3, 1982

To: The Program Committee
The Research and Policy Committee

From: Owen B. Butler, Chairman
Design Committee on the Business-Education Relationship

Subject: Report of the Design Committee on the Business-Education Relationship

At its May 1982 meeting, the Research and Policy Committee established a Design Committee to study the relationship between business and education, authorizing it to develop a policy statement outline that would focus on "current and potential education problems at the elementary and secondary levels with the greatest import for the economy and what contributions business can most usefully make to their resolution."

Consequently, the Design Committee (a list of members and advisors is attached) met twice, on September 15 and October 27, to discuss the organization and content of a proposed policy statement which would offer recommendations for improving the performance of American education and the work-readiness of the nation's graduates. As a guide for the Design Committee's discussions, a preliminary research agenda was prepared by Project Director Denis P. Doyle and Marsha Levine of the American Enterprise Institute.

Earlier research by CED, particularly an April 1982 survey of its Trustees, demonstrated a substantial and growing concern for the poor overall quality of U.S. education. A consensus emerged that the public school system has been turning out an alarming number of graduates who cannot meet basic requirements for entry-level employment or who have not acquired the learning skills that would enable them to advance in their careers. Although the Design Committee recognizes that the basic purpose of universal public education goes well beyond the immediate needs of the work world, it believes that both business and the schools have an enormous stake in ensuring that the education system produces a skilled, literate, and adaptable work force to meet the challenges of a changing society. Addressing this situation will be crucial if we are to enhance human capital, increase productivity, renew our competitive spirit, and build a strong economic future.

Therefore, the Design Committee believes that CED can make its most significant contribution to this problem area by developing proposals for improving the work-readiness, conceived in broad terms, of the nation's students. To do this, the CED study should focus mainly on two critical issues:

(1) Assessing the costs, to the economy, to employers, and insofar as is possible, to the individual and society, of educational failure as it is now perceived; and

(2) Articulating the needs of business in terms of the intellectual abilities, vocational and general learning skills, and behavior and attitudes it expects from new entrants into the work force; working with the schools to develop mutually reinforcing standards of achievement; and identifying and presenting effective

mechanisms to help students reach those standards.

The first stage in developing a CED policy statement should consist of a three-pronged effort:

- First, a statement of the problems business perceives in the educational system which have led to deficiencies in meeting the national need for human capital.
- Second, the assembly and analysis of data in order to gauge the severity of educational problems as they relate to the needs of business and society. Many resources could be tapped, including studies of work force needs currently being conducted by the U.S. Chamber of Commerce and others. In addition, a survey of CED Trustee companies early in the information gathering process would give the CED subcommittee access to invaluable anecdotal information on what businesses perceive as the major problems and the steps they are taking to ameliorate educational deficiencies among their own employees.
- Third, a comparative analysis of different educational methods within the United States and among our major competitors as a way of ascertaining what works, what does not, and why.

Assessing Costs and Promoting Adaptability

An accurate assessment of the economic and social costs of educational failure would lend heightened credibility to the CED study. Articulation of these costs, in terms of lowered productivity, foregone tax revenues, monies diverted to remedial education, expanded welfare and unemployment insurance burdens, and idle workers with outmoded skills, would enable the CED policy statement to build a broad consensus and establish a firm public commitment to the need for educational reform.

The needs of business -- as defined by the concept of "work-readiness" -- encompass much more than a narrow set of vocational skills. Primary and secondary education lay the foundations of a life-long learning process that is essential to a complex and rapidly changing society. As technological growth continues to transform both the nature and substance of work, we must be careful not to create educational "dinosaurs" with outmoded skills. Adaptability must be the watchword for any policies CED advocates to improve the schools.

The CED policy statement should emphasize that the broad purpose of education is to prepare graduates who are not only work-ready, but who are capable of continuing to learn and of becoming productive, contributing members of society. The Design Committee identified seven major elements that constitute this kind of education and which should be supported by the business community. They include:

1. Productive attitudes and behavior, such as an appreciation of the need for teamwork in learning and work situations, for maintaining self-respect and respect for others, and for creating a healthy sense of competition in a competitive society;

2. A common base of knowledge in a range of subjects, such as science, mathematics, history, literature, and the social sciences;

3. Communication skills, which include reading, writing,

speaking, and listening skills;

4. "Learning-to-learn" through such approaches as analytic thinking and problem solving;

5. Vocational and commercial skills that are commensurate with those actually needed in the job market;

6. Advanced preparation beyond the basics for those intending to go on to higher education; and

7. An emphasis on civic responsibility so that graduates become informed, productive participants in the social and political process.

In addition, an important part of the CED project should consist of identifying mechanisms through which work-readiness can be assayed. What is needed is not one national set of standards, but an assessment of the skills and capabilities that are required for a broad range of job categories, now and in the foreseeable future. Development of a workable process to communicate this valuable job market information to the schools can help them in setting more realistic standards for achievement. Furthermore, if business works with the schools to develop objective measures for evaluating academic and vocational preparedness, both partners in this experiment will acquire an accurate gauge to determine if fundamental goals are being met.

Related Policy Issues

One area of particular concern that needs to be addressed is the grim prognosis for pre-collegiate science and mathematics education, particularly for the 90 to 95 percent who do not go on to scientific careers. Even as the United States becomes a society increasingly dependent on advanced technology, many studies have indicated that the general level of scientific literacy in this nation is at an all-time low. This unfortunate situation could have serious consequences for any attempt to improve industrial productivity and America's competitive position. Many factors have contributed to the poor quality of science and math education: critical shortages of math and science teachers in almost every school district; low salaries that discourage the brighter students from becoming educators and encourage them to enter more lucrative careers in industry; and tight budgets that limit programs and make up-to-date equipment scarce. In some school districts as many as 26 percent of all middle and secondary school science teachers are not properly certified and, in some areas, as few as 10 percent of elementary school teachers feel qualified to teach the sciences.

Industry has an important stake in reversing this situation. It can no longer consume its "seed corn" by luring those with scientific aptitude away from teaching. Ironically, many companies are having difficulty finding enough well-trained scientists, mathematicians, and computer specialists themselves, as was indicated in recent congressional testimony by a representative from AT&T.

Although this problem is being addressed on the graduate level for engineers and scientists (most notably by a new Exxon Education Foundation program), greater attention should be paid to building the educational foundations for math and science in the early grades. Some significant work is already taking place -- the National Science Board has a Commission on Pre-Collegiate

Science and Mathematics Education which will issue its report in approximately one year. At the same time, however, the National Science Foundation has completely eliminated its budget for pre-collegiate education programs. A business group such as CED can lend an authoritative voice to this important debate.

In fact, the quality of teaching in general is an issue that may be worth examining in a CED policy statement. Data show that education majors are among the lowest achievers according to every measure of academic ability. Developing suitable policies to attract better educated, higher caliber teachers may require some rethinking of the relative importance of elementary and secondary education to the economy and society. The CED study should explore options including offering financial and other incentives to reward excellence in teaching, upgrading professional standards for teachers, and using industry personnel as regular part-time teachers and/or resource personnel, particularly in the sciences.

Although the CED study should focus primarily on elementary and secondary public schools, the interface between pre-collegiate and higher education should also be examined. In their relationship to pre-collegiate education, colleges and universities perform three vital, interconnected functions:

- They represent a major step in the school-to-work transition. A majority of high school graduates now go on to some form of post-secondary education, either before or in tandem with entering the work force.

Therefore, like employers, higher education is a "consumer" of the secondary school "product."

- They serve to set standards for high school curricula and performance. College and university admissions requirements tend to influence both what is taught in high school and the levels of attainment that are expected of high school graduates.
- They can provide vital resources for nearby elementary and secondary schools in terms of special advanced or cooperative programs for students or further training for teachers.

Developing an Historical Context

Decisions about education in the United States tend to be made on the state and local level within a complex web of social, historical, economic, and political considerations. American education is highly decentralized and largely public, supported by a mix of local, state, and federal funds. The CED study will have to examine policy options that can be reasonably implemented in light of the way education policy has been, and is likely to continue to be, framed. It would be counterproductive for the CED study to attempt to suggest solutions that can only be effective on the national level. Instead, the CED study should look to policy areas for which there is a realistic possibility of effecting change. In this context it would be highly valuable for the CED study to examine models of local business-education cooperation, broad in scope, that have led to significant improvement in particular school systems. Many examples could be culled from the survey of CED Trustee companies and serve as models for other school systems looking for new avenues for improvement.

Also, it will be helpful for the CED study to examine the role of the schools within an historical context. As mentioned earlier, the purpose of education reaches beyond preparation for employment, and can actually be broken down into three broad goals:

-- Education for citizenship;

-- Education for work-readiness; and

-- Education as a vehicle for equality of opportunity.

These three purposes of education are mutually reinforcing. Men and women educated for responsible citizenship have a better understanding of what it means to work productively and economically productive employees are better able to exercise the rights and duties of citizenship. Similarly, promoting access to equal educational opportunity as a goal of education can lead to a political and economic system which emphasizes output and which properly rewards merit, initiative, and talent.

Balancing the multifaceted purposes of education as a producer of well-informed citizens and productive workers will form an important part of the CED study. The primary goal will be to build a reasoned analysis of key issues and to propose an appropriate role for business. It is hoped that the CED project can establish important lines of communication among the various partners in the business-education relationship that will lead to consensus and significant action.

TESTIMONY

OF

OWEN B. BUTLER

CHAIRMAN OF THE PROCTER & GAMBLE COMPANY

and

VICE CHAIRMAN OF THE COMMITTEE

FOR ECONOMIC DEVELOPMENT

ON

PUBLIC EDUCATION, PRODUCTIVITY AND PROSPERITY

BEFORE

HOUSE BUDGET COMMITTEE TASK FORCE ON EDUCATION AND EMPLOYMENT

THE UNITED STATES HOUSE OF REPRESENTATIVES

June 22, 1983

Mr. Chairman:

My name is Owen B. Butler and I am Chairman of the Procter & Gamble Company. Today I am representing the Committee for Economic Development, a non-profit, non-partisan organization of over 200 of the nation's leading business executives and college and university presidents, who work personally to develop statements on important national policy concerns by combining their practical day-to-day experience with objective research.

CED has long held that education is a critical ingredient to productivity and prosperity. Over the past several years, we have released a number of reports on a variety of important education issues such as school finance, assisting disadvantaged students at the pre-school level, and remedial and vocational education programs. Many of these studies have stressed a specific need to improve the quality of education for the disadvantaged.

Recently, the CED trustees have become increasingly concerned about the terrible cost to the individuals and to the nation when our public schools graduate young men and women who lack the necessary skills to obtain and retain rewarding employment.

This concern, which surfaced long before the publication of the reports you are considering today, does not stem from philanthropic motivation. It was first strongly raised at a CED session devoted to finding ways to improve the nation's lagging productivity, where my colleagues asserted their conviction that the long term competitiveness of the U.S. economy would depend on a public education system which graduated students with the attitudes, knowledge and learning ability to contribute to the country's productivity growth.

To identify the depth of this concern, CED surveyed its entire membership in early 1982. The result, while not surprising in light of the extraordinary interest generated during the past few months, was at the time startling: the trustees, with virtual unanimity, urged that CED undertake a sustained, in-depth look at the problem to assess the relationship between the quality of elementary and high school education and the productive capacity of American industry, and to identify specific ways in which business could help bring about improvement. The trustees felt strongly that the problem needed a business perspective.

The need for business involvement has been confirmed in several of the reports this task force has chosen to consider today. The Report of the Business-Higher Education Forum, to which several CED trustees contributed, calls on industry to increase its support of pre-collegiate education. The National Commission on Excellence in Education acknowledges that the business community is the greatest user of education and suggests that business has a great deal to contribute to resolving the problems as the commission has defined them. The Report of the Education Commission of the States has issued what amounts to a clarion call for a business-education collaboration. Unfortunately, none of these studies are very specific about the roles business can play or how business can be most effectively and usefully involved.

Over the past year, a CED Design Committee has been looking at precisely this question. This Committee, which I chaired, and which involved a select group of CED trustees and advisors has issued a preliminary report. I have included a copy of the report and the Design Committee membership in the appendix to this statement.

In our report, we conclude that education for economic growth means a great deal more than satisfying business needs: that its purpose includes education for citizenship and education as a means to personal fulfillment and equal opportunity as well as education for the work place. We stress that an education system which seeks to enhance equal opportunity must reward merit, enterprise and talent. At the same time, we conclude that if our students do not have the necessary skills to gain productive employment, their ability to exercise their rights of citizenship suffers and the goal of equity becomes difficult if not impossible.

The Design Committee also believed it important to view the problem of elementary and secondary schooling in the context of life-long learning. We feel that elementary and secondary education should build on the values and teaching of the home and provide the foundation for further education and training in post-secondary institutions or the work place. Changing demographics and work requirements will increase the need for the business community to provide an ever growing share of an individual's total education and training, and we believe that quality elementary and secondary education is a vital prerequisite if business is to fulfill this need effectively.

Accordingly, the Design Committee set out for CED a number of objectives:

- First, to define better the link between education and economic productivity by:
  - (a) assessing the costs to the economy, employers, society, and the individual of educational failure;
  - (b) articulating the needs of business in terms of intellectual abilities, vocational and general learning skills;
  - (c) defining more precisely the educational requirements needed to develop the ability to learn throughout one's life;
  - (d) defining the behavior patterns and attitudes which students need to obtain productive employment; and
  - (e) working with schools to develop mutually-reinforcing standards of achievement and effective mechanisms for reaching those standards.

- Second, to examine and identify primary and secondary education as the foundation for life-long learning; not only in terms of business's needs but also in relation to the role higher education has in influencing standards of achievement at lower educational levels.

. Third, to examine the various roles business can appropriately and effectively play to improve the quality of education. These include those activites which result in positive programmatic improvements such as curriculum, standards and the like, and those that deal with issues of school policy and finance. This will go far beyond the traditional concept of public-private partnership, such as the now popular adopt-a-school approach, which is by no means the only way business can make a positive contribution.

. Finally, the Design Committee urged CED to pay careful attention to the historical and social context within which educational decisions are made and attempt to provide a balanced analysis of the three broad goals of public policy: education for citizenship; education for work readiness; and education as a vehicle for providing equality of opportunity.

A full CED Subcommittee on Business and the Schools has now begun work to carry out this mandate. Its membership represents an unusually talented group of business leaders and academicians. Our first mission will be to undertake a comprehensive review of the various reports recently released and determine those areas of possible reform where future research is needed and where the business community can make a positive contribution. We expect to accomplish this first step by the end of July with possible release of the findings in August. We will then undertake our full study, the conclusions of which will in every respect, be developed through careful research.

Although the major part of our work will not be completed until 1985, we hope to be able to comment more specifically on our concerns and to identify those areas where further work is required by early next year.

Mr. Chairman, the CED is in a unique position to bring a much needed business perspective to our national effort to improve the quality of the nation's schools. CED is the only organization approaching this subject that has a broad-based business consituency and can draw on the insight and expertise of such a large number of corporate leaders on a specific policy concern. The CED process of consensus, combined with objective research and direct trustee involvement, assures that the business perspective is a considered one. Equally important, CED has the capacity to encourage implementation of its recommendations, not only among its trustee companies but in a significant number of regions and communities around the country. CED's recent statement, Public-Private Partnership: An Opportunity for Urban Communities, is helping develop in the area of economic development needed coalitions among business people and key public officials at the community level. It is at the local level most important education decisions are made and CED can in a similar way serve to support and stimulate leadership and consenses among national and local political leaders, business people, parents, educators and students.

Finally, the CED study will devote itself to those questions of policy and implementation the various reports have failed to address adequately and to which business can contribute. And we will direct our attention and develop our recommendations with a commitment to identifying what the student needs to succeed, and not what the educator or business person needs.

Mr. Chairman, we do not intend to lament the real or imagined failures of the past; nor do we intend to spend time pointing fingers and assessing blame, which, unfortunately, appears to be an unhappy consequence when issues of this magnitude emerge. We recognize that achieving better quality in our nation's schools exceeds the capacity of any one level of government or group, or even an individual community to undertake. It will take more that a public-private partnership. It will take a partnership of all concerned and interested in the important role the graduates of our public schools will play in the future economic well-being of the nation. It will take the President and the Congress working together to devise a Federal role to assist in reversing the trend; it will take State and local education policy makers working together with teachers and their unions; it will take the commitment of parents, the school boards, business and the community at large.

Mr. Chairman, I would like to close on a personal note. One of the great blessings conferred on me as an American citizen was the opportunity to attend the Baltimore public schools from 1929 to 1940. In a time of severe economic recession, the generation which preceded me had been willing to make the extra sacrifices required to provide an outstanding educational opportunity for any child willing to make the effort. Much of what I have been able to achieve in the last 40 years is a result of that schooling.

I am happy to say that I am more optimistic about improvements in our public schools now than I have been in the last 30 years. Democracy still works pretty well in this country. When a broad public recognition of a need for action arises, then constructive action usually results. I don't think there is any question that the American people are demanding of themselves that our elementary and secondary schools be improved. Because of this, I think they will use their own resources and that they will call on everyone - the teachers, the school boards, the governments, and the children themselves -- to get better results. It is my hope that CED can contribute positively, not only by assisting in determining the best solutions, but in seeing that they are indeed implemented efficiently and wisely.

Representative LUNGREN. Thank you very much, Mr. Semple. Our next witness is William Kolberg, president and chief executive officer of the National Alliance of Business.

Mr. Kolberg.

STATEMENT OF WILLIAM H. KOLBERG, PRESIDENT, THE NATIONAL ALLIANCE OF BUSINESS

Mr. KOLBERG. Thank you, Congressman Lungren. The business organizations represented here this morning, as you already have heard from my colleagues, were very strong in the pursuit of a piece of legislation like the Job Training Partnership Act. In addition to our organizations, the Business Roundtable, and the National Association of Manufacturers also worked very hard to achieve passage of this legislation. As you have pointed out already this morning, Congressman, we think it breaks a lot of new ground. The word "landmark" gets overused in this town, but we believe that in some senses it is a landmark piece of legislation.

Business interest in this legislation grew out of concern for the quality of labor force entrants and rapidly changing skill demands upon the current work force. The business community had certain concepts in mind which were essential to its support for the passage of JTPA. Most of those concepts were eventually incorporated into the law.

We sought to establish a formal system that would require genuine collaboration between private enterprise and the public sector to assist the labor market in its operations. The most immediate need was to help individuals with barriers to employment become productive members of the labor force. We recognize the importance of getting the employers, who are those who must use the employment and training system, to participate in developing the training and placement opportunities for the unemployment. This required a reassessment of both the systems of labor exchange services established under the Wagner-Peyser Act of 1933, and the public training system established under CETA in 1973.

To make this system a regular source of productive employees, it was necessary to assure that skills developed through the use of public funds were useful and efficient when compared to actual employer needs in the local economy. The result was the Job Training Partnership Act which went further than any other similar type of Federal legislation to equalize authority between the private and the public sectors over all aspects of local policymaking, planning, administration, and program operations.

This was a deliberate recognition of the need to harness private sector expertise, resources and support to tailor publicly financed training programs to local economic realities.

The act incorporated a new concept of local, private, industry councils as the primary labor market organization in each locality. The PIC structure and staff is employer led and its membership is chosen from recommendations made by general purpose business organizations in the area. It is a process that enables the private sector to choose its own best leadership to help each locality carry out public responsibilities. The council provides private employers and other commu-

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nity members with the forum in which to discuss and shape judgments about the training needs of the area and how best to meet them.

The idea of using general-purpose, business organizations was to get local employer organizations to support and work with the private industry council. We have heard from Mr. Campbell that the local chambers of commerce, over 80 percent, have been very much involved in the first-year implementation of the JTPA.

The reason for this is quite clear—members on the private industry councils should see themselves as representatives of the employer community. And the general-purpose, business organizations, typically chambers of commerce, are capable of identifying those representatives and enlisting their aid on the private industry council.

The business identity of the PIC, with its 51-percent, business, majority memberhip and its chairperson chosen from business members, provides its most important leverage for broadening the private sector support and use of publicly funded employment and training programs.

In our view, this identity is critical to the future success of the private industry councils and of the Job Training Partnership Act.

There are now over 580 new, private, industry councils in operation nationwide. Their members represent a broad variety of business leaders from the Fortune Top 20 to local entrepreneurs, which is what we in the business community had hoped for.

Overall, about 11,000 new business volunteers are involved in making this initiative work. Our estimate, Congressman, is that there are some 20,000 volunteers serving on these new, private, industry councils, of which, of course, the majority are business.

You are interested, as we are, with the kind of involvement and support that American business has given over the last year to this new responsibility. I could read off—perhaps I should just very briefly—some of the chairing companies that would read like a who's who of American business. Let me proceed to do that.

Among the State job-training councils, chairmen come from the following companies: Traveler's, Mellon National Corp., Delta, General Electric, Quaker Oats, Emerson Electric, Rockwell International, Sohio, and ITT.

Among the local, private, industry councils, chairpeople come from the following companies: Aetna, Johnson & Johnson, General Mills, B. F. Goodrich, Prudential, Boeing, TRW, Eastern Airlines, IBM, Goodyear, Martin Marietta, Rockwell, United States Steel, Armco, and General Motors.

As you pointed out earlier, Congressman, the implementation period of 1 year ends this coming week. Clearly, in looking at 580 to 590 new bodies, we have not attempted so far to put together a who is who and what is what on it. I think it is safe to say that, although one is never satisfied with the kind of volunteer assistance that you get in any organization, the showing on the part of American business is to be applauded, and I believe it will continue.

One of the greatest challenges the system will face is harnessing and maintaining the commitment of these private sector volunteers to the private industry council. Successful partnerships in any endeavor are based on mutual respect, trust, and confidence. All partners must believe in the mission of the joint venture and see themselves as sharing equally in both the risks and the benefits. The partners must have equal access to resources, staff, information, experience, and the authority to unleash these resources.

If the partners under the Job Training Partnership Act cannot perceive their authority as equal, we will not be able to maintain the involvement of top management of either business or government. Sustaining interest in getting results from the partnership will depend on how well it is managed, how important the issues are to the partners, how well they are kept informed, the significance of the role played by each and whether measurable results can be achieved.

This will require a genuine effort from local elected officials and PIC members to build and share a training system and program suitable to each community's needs.

New private industry council members will need to better understand how the available job training systems work and be able to explore a variety of options for the role of the private industry council as a new community institution.

The primary initial responsibilities of the private industry council will be to deal with the 3 to 4 percent of the local labor market that are typically structurally unemployed, primarily youth, women and minorities. It is an enormous challenge for any new fledgling system, but one that we are confident can be addressed under the Job Training Partnership Act.

The success of the private industry councils in dealing with the most difficult labor market problems will expand their capacity in the future to include not only the disadvantaged, but to take on problems concerning the employability of the entire community.

Private industry councils will need to develop the capacity to help prevent structural unemployment by helping the local education institutions better understand their area's labor market needs.

The potential of the private industry council to become the primary community institution for addressing labor market problems is the important point I wish to emphasize.

Congressman, we have a long-term view of these new institutions. We do not see them as only a new body that concerns itself with a very small portion of the labor market problems in the community in which it exists. We see it over time becoming more and more a competent, intelligent, well supported institution which can take on ever-larger responsibilities in the labor market.

On the one hand, we need to assure that the private industry councils have substantial ongoing responsibilities that will retain business volunteers and nurture development of the partnership. But, on the other hand, we must be careful not to load this new fledgling body with too many new responsibilities before they have had a chance to establish themselves or learn how to succeed with their communities' immediate training needs.

Let me turn now, Congressman, to some other possible actions which the Congress might wish to take which I believe would be consistent with the action that the Congress has taken on the Job Training Partnership Act.

For instance, the unemployment insurance system is being considered by some as a potential source of training funds. The unemployment insurance system, as a whole, funded primarily out of employer taxes, is bearing a great financial burden as we move out of the recent recession. Much of the cost can be justified to maintain an experienced and ready work force during brief periods of economic downturn. However, we have seen from this recession that a growing number of unemployed workers will not return to jobs because their skills are outmoded by rapidly changing technology.

For these individuals, it might make sense to experiment with some of the options of using compensation payments to help cover the cost of retraining. Since such ideas could be very expensive, they should not be imposed on the system before they are tried on a small scale.

And I might add parenthetically, Congressman, that several States, California being one of them, has, I gather, successfully used the unemployment insurance system as a mechanism for retraining.

The option of using unemployment compensation or trade adjustment assistance to meet dislocated workers' living expenses, while title III of the Job Training Partnership Act pays for their retraining, is one that also should be utilized. The limited duration of benefits would lead individuals toward an early decision to seek out and undergo training.

The unemployment insurance system and the job service it supports must do more to provide effective job search assistance, counseling, and related services to all the unemployed. These techniques have proven themselves especially helpful to dislocated workers.

The new planning system for the job service which requires joint planning with the local private industry council and mandates review and certification of job service plans by the State job training coordinating council holds great hope of directing job service efforts toward the most pressing employment problems in the State. That process needs to be encouraged and nurtured.

Parenthetically, Congressman, over time it may well be that the most important part of the Job Training Partnership Act was the drawing together of the State agencies and the longstanding employment service with the activities of the private industry council at the local level. The job service, I believe, has suffered for too long from a lack of involvement and a lack of understanding on the part of private employers. That involvement is now mandated in this act. I believe, overtime, it will make a tremendous difference in improving the effectiveness of the job service.

Programs that focus on aiding dislocated workers should continue to be a priority. The new program of State grants for dislocated worker training under title III has not yet been fully implemented. Most States have been so busy trying to meet the deadlines with the October 1 implementation of the JTPA that they have not been able to turn their full attention to title III.

The States need time to plan careful use of the funds and to think beyond the current experience.

Another of the great resources available for training and retraining is the Vocational Education System. An extensive network of public and private secondary and post-secondary institutions has the potential of delivering state-of-the-art occupational skills to individuals of all ages. The Vocational Education System is an $8.5 billion system, primarily funded by States and localities.

The upcoming reauthorization of the Federal Vocational Education Act provides a timely opportunity for the Congress to rethink how the Federal dollars, currently about $750 million, should be used to encourage an improved and responsive Vocational Education System that meets the employer needs.

Here, again, I echo what my colleague, Mr. Campbell, has said. We believe that, in general, the approach to the Vocational Education Act should be the same approach in concept that we have under the Job Training Partnership Act. The Vocational Education System exists to provide workers skills for real jobs with private sector employers. The closer we can draw employers and the vocational system together, the more effective it is going to be.

Indeed, better planning, coupled with measures of program performance and closer coordination with the JTPA system are some of the specific steps that should be considered.

The targeted jobs tax credit reauthorized in 1982 as part of the Tax Equity and Fiscal Responsibility Act is another important approach, even though it is still in its trial stages. The regulations for this program have not yet been developed, after nearly 2 years of operation. Regulations are necessary to encourage better business involvement; otherwise, business fears use of a credit which the Federal Government may well deny later, or the threat of an audit. The certification procedures for eligible employees remain unclear.

The experience of this past summer, during which the new 85-percent tax credit for hiring economically disadvantaged 16- and 17-year-old was in place, gave an important indication that adequate tax incentives for employers do work. Incentives to hire and train those individuals with special needs or disadvantages can be further refined and should be given a genuine chance.

There are a number of other tax credit proposals pending in the Congress that should be discussed seriously, such as those giving businesses credit for donations to educational institutions through equipment, use of facilities or sharing of personnel. There are also tax incentives for employers to upgrade and retrain their current employees and a pending reauthorization of the employer educational assistance program which otherwise will expire at the end of this year.

In a similar way, the tax and regulatory benefits offered in the pending enterprise zone proposals ought to be tried. These benefits could prevent further economic decline in specially targeted areas.

In the next few years, there will be a full agenda, as the new Job Training Partnership Act institutions develop into an efficient system that deeply involves local employers and commits States and localities to improving employment and employability within their jurisdictions.

We do not believe, Congressman, that this is the time to change the Job Training Partnership Act legislation, but rather, a time to develop and refine options which can be complementary to that system. We would encourage you to demonstrate the value of any new ideas in pilot programs, while protecting the early development of the partnership.

It is still possible to act on a number of these during the remainder of this Congress. If both Chambers could complete action on bills revising vocational education, establishing enterprise zones, providing tax incentives for improving educational institutions, and coordinating title III dislocated worker training with unemployment insurance, a great deal will have been accomplished for the benefit of the unemployed.

It can be done by building sensibly on what we already have. It would not be productive at this point, in our view, to undertake major new initiatives or entitlement programs without having first proved their value on a smaller scale.

The nature of unemployment does not lend itself to any single answer. It will require continued commitment and cooperation among business, labor and government and educational institutions to tap the variety of resources and expertise necessary to meet our labor force needs.

I commend the committee for holding these hearings so that a broad perspective on employment and unemployment issues can be developed and decisions made in that light.

Thank you.

[The prepared statement of Mr. Kolberg follows:]

PREPARED STATEMENT OF WILLIAM H. KOLBERG

Mr. Chairman, thank you for your invitation to appear before this Committee to express the views of the National Alliance of Business on the importance of the Job Training Partnership Act of 1982 (JTPA) and its potential for serving the nation's critical labor force needs.

My name is William H. Kolberg. I am President and Chief Executive Officer of the National Alliance of Business.

The National Alliance of Business is an independent, business-led, non-profit corporation whose mission is to increase private sector training and job opportunities for disadvantaged and long-term unemployed persons through strong public/private partnerships of business, government, labor, education, and community-based organizations. The Alliance has had nearly 15 years of experience helping unemployed youth and adults to obtain productive jobs in business and industry. Every administration since NAB's founding in 1968 has turned to us to continue our lead in developing and maintaining business community commitment to train and employ the disadvantaged.

The National Alliance of Business worked hard for passage of the Job Training Partnership Act (JTPA) along with other major national business organizations, and this commitment continues in support of the Act's implementation.

Business interest in this legislation grew out of concern for the quality of labor force entrants and rapidly changing skill demands upon the current workforce.

The business community had certain concepts in mind which were essential to its support for passage of JTPA, and most were eventually incorporated into the law. We sought to establish a formal system that would require genuine collaboration between private enterprise and the public sector to assist the labor market in its operations. The most immediate need was to help individuals with barriers to employment become productive members of the labor force.

We recognized the importance of getting the employers, who are those that must use the employment and training system, to participate in developing the training and placement opportunities for the unemployed. This required a reassessment of both system of labor exchange services established under the Wagner-Peyser Act of 1933 and the public training system established under the Comprehensive Employment and Training Act (CETA) of 1973.

To make this system a regular source of productive employees, it was necessary to assure that skills developed through the use of public funds were useful and efficient when compared to actual employer needs in the local economy.

The result was the Job Training Partnership Act which went further than any other similar type of federal legislation to equalize authority between the private and public sectors over all aspects of local policymaking, planning, administration, and program operations. This was a deliberate recognition of the need to harness private sector expertise, resources, and support to tailor publicly financed training programs to local economic realities.

The Act incorporated a new concept of local private industry councils (PICs) as the primary labor market organization in each locality. The PIC structure and staff is employer-led, and its membership is chosen from recommendations made by general purpose business organizations in the area. It is a process that enables the private sector to choose its own best leadership to help each locality carry out public responsibilities. The council provides private employers and other community members with a forum in which to discuss and shape judgements about the training needs of the area and how best to meet them.

The idea of using general purpose business organizations was to get local employer organizations to support and work with the private industry council, and to encourage the general business community to help train and ultimately hire the trainees. The business identity of the PIC, with its 51 percent business majority membership and its chairperson chosen from business members, provides its most important leverage for broadening private sector support and use of publicly funded employment and training programs. In our view, this identity is critical to the future success of the PICs and of JTPA.

There are now over 580 new private industry councils in operation nationwide. Their members represent a broad variety of business leaders, from the Fortune top 20 to local entrepreneurs, which is what we had hoped for. Overall, about 11,000 new business volunteers are involved in making this initiative work.

One of the greatest challenges this system will face is harnessing and maintaining the commitment of volunteers to the PIC. Successful partnerships in any endeavor are based on mutual respect, trust, and confidence. All partners must believe in the mission of the joint venture and see themselves as sharing equally in both risks and benefits. The partners must have equal access to resources, staff, information, experience, and the authority to unleash them.

If the partners under JTPA cannot perceive their authority as equal, we will not be able to maintain the involvement of top management of either business or government. Sustaining interest and getting results from the partnership will depend on how well it is managed, how important the issues are to the partners, how well they are kept informed, the significance of the role played by each, and whether measureable results can be achieved.

This will require a genuine effort from local elected officials and PIC members to build and share a training system and program suitable to each community's needs. New PIC members will need to better understand how the available job training systems work and be able to explore a variety of options for the role of the PIC as a new community institution.

The primary responsibility of the PICs will be to deal with the three to four percent of the local labor market that are structurally unemployed, primarily youth, women, and minorities. It is an enormous challenge for any system, but one we are confident can be addressed under JTPA.

The success of the PICs in dealing with the most difficult labor market problems will expand their capacity in the future to include not only the disadvantaged but the employability of the whole community. PICs will develop the capacity to help prevent structural unemployment by helping local education institutions better understand their area's labor market needs.

The potential of the PIC to become the primary community institution for addressing labor market problems is the important point I wish to emphasize. On the one hand, we need to assure that they have substantial on-going responsibilities that will retain business volunteers and nurture development of the partnership, but on the other hand, we must be careful not to load them with too many new responsibilities before they have had a chance to establish themselves or learn how to succeed with their community's immediate training needs.

In the interim, I believe it is important that we continue to examine how other related public systems can be brought to bear on the nation's growing employment and training problems.

For instance, the unemployment insurance system is being considered by some as a potential source of training funds. The unemployment insurance system as a whole, funded primarily out of employer taxes, is bearing a great financial burden as we move out of the recent recession. Much of the cost can be justified to maintain an experienced and ready work force during brief periods of economic downturn. However, we have seen from this recession that a growing number of unemployed workers will not return to jobs because their skills are outmoded by rapidly changing technology. For these individuals, it might make sense to experiment with some of the options of using compensation payments to help cover the cost of retraining. Since such ideas could be very expensive, they should not be imposed on the system before they are tried on a small scale.

The option of using unemployment compensation or trade adjustment assistance to meet dislocated workers' living expenses while Title III of JTPA pays for their retraining is one that should be utilized. The limited duration of benefits would lead individuals toward early decisions to seek out and undergo retraining.

The unemployment insurance system and the job service it supports must do more to provide effective job search assistance, counseling, and related services to all the unemployed. These techniques have proven themselves especially helpful to dislocated workers.

The new planning process for the job service which requires joint planning with local private industry councils and mandates review and certification of job service plans by the State Job Training Coordinating Council holds great hope of directing job service efforts toward the most pressing employment problems in a state. That process needs to be encouraged and nurtured.

Programs that focus on aiding dislocated workers should continue to be a priority. The new program of state grants for dislocated worker training under Title III of JTPA has not yet been fully implemented. Most states have been busy trying to meet deadlines for the October 1 implementation of the JTPA system, and they have not been able to turn their full attention to Title III. States need time to plan careful use of the funds available and to think beyond our present experience with dislocated worker programs. We need to find the most effective ways to help those workers who have been the backbone of society and who are out of work through no fault of their own.

Another of the great resources available for training and retraining is the vocational education system. Its extensive network of public and private secondary and post-secondary institutions has the potential of delivering state-of-the-art occupational skills to individuals of all ages if the curricula and quality of instruction were matched better with actual labor market demands.

The upcoming reauthorization of the Vocational Education Act provides a timely opportunity for Congess to rethink how federal dollars should be used to encourage an improved and responsive system that meets employer needs. The Alliance believes that collaboration between educators and employers at the policymaking and technical levels is fundamental to effective and relevant programs. Better planning coupled with measures of program performance and closer coordination with the JTPA system are some of the specific steps we think should be considered.

The Targeted Jobs Tax Credit, reauthorized in 1982 as part of the Tax Equity and Fiscal Responsibility Act, is another important approach even though it is still in its trial stage. Regulations for the program have not yet been developed after nearly two years of operation. The regulations are necessary to encourage business involvement. Otherwise, business fears use of a credit which the federal government may well deny later, or the threat of an audit if certification procedures for eligible employees remain unclear.

The experience of this past summer, during which the new 85 percent tax credit for hiring economically disadvantaged 16 and 17 year olds was in place, gave an important indication that adequate tax incentives for employers can work. Incentives to hire and train those individuals with special needs or disadvantages can be further refined and should be given a genuine chance.

There are a number of other tax credit proposals pending in the Congress that should be discussed seriously such as those giving businesses credit for donations to educational institutions through equipment, use of facilities, or sharing of personnel. There are also tax incentives for employers to upgrade and retrain their current employees, and a pending reauthorization of the employer educational assistance program which otherwise will expire at the end of this year.

In a similar way, the tax and regulatory benefits offered in the pending enterprise zone proposals ought to be tried. These benefits could prevent further economic decline in specially targeted areas. Many states are ready to demonstrate the value of the idea now because they have established enterprise zones in anticipation of federal legislation. We should act now to give them that opportunity.

For the next few years there will be a full agenda as the new JTPA institutions develop into an efficient system that deeply involves local employers and commits states and localities to improving employment and employability within their jurisdictions.

This is not the time to change the JTPA legislation, but rather a time to develop and refine options which can be complementary to that system. We would encourage you to demonstrate the value of new ideas in pilot programs while protecting the early development of the partnership.

It is still possible to act on a number of these during the remainder of this Congress. If both chambers could complete action on bills revising vocational education, establishing enterprise zones, providing tax incentives for improving educational institutions, and coordinating Title III dislocated worker training with unemployment insurance, a great deal will have been accomplished for the benefit of the unemployed. It can be done by building sensibly on what we already have. It would not be productive at this point to undertake major new initiatives or entitlement programs without having first proved their value on a smaller scale.

The nature of unemployment does not lend itself to any single answer. It will require continued commitment and cooperation among business, labor, government, and education institutions to tap the variety of resources and expertise necessary to meet our labor force needs. We commend the Committee for holding these hearings so that a broad perspective on employment and unemployment issues can be developed and decisions made in that light.

Mr. Chairman, I would be happy to respond to any questions you may have.

Representative **Lungren**. Thank you, Mr. Kolberg, and thank you all for your testimony.

Mr. Kolberg, last week we had Dennis Carey here, who is secretary of the Delaware Department of Labor. He testified as to some disappointment in the progress of the formation of PIC, suggesting that they may be lagging behind schedule. I take it from your testimony, you do not believe that to be the case.

Mr. **Kolberg**. There had been some of that earlier in the year, Congressman. I believe that there were 22 new Governors. Some of the Governors had a difficult time getting around to this particular new responsibility of theirs. I believe it is fair to say that all States are ready to go. I believe the October 1 date will be met. I believe we in the business community, as well as the Congress, expected more to happen over this first year than is reasonable to count on. It was a heavy job to put in place a new system involving 20,000 new people, 650 new institutions starting off with States and then working their way down to the grassroots in every State in the country. That is a major task.

I think we can point with some pride to the fact that this task will be accomplished by October 1. We now have the job—"we," meaning the private industry councils and the State councils—of taking a look at the program that has preceded their being on board, the CETA program, and making the kind of program planning decisions over the next 9 months that will redirect that program in ways that the private industry councils are more comfortable with.

Representative **Lungren**. That leads me into another question, which is: You mentioned that a number of States have new Governors and that may have been the cause for some delay in gearing up with the State participation. And I would like to ask this of all three of you.

Are you satisfied with the level of commitment and cooperation that you are receiving, that the organizations that you represent are receiving from the State governments in preparing for the Job Training Partnership Act?

Mr. **Campbell**. Yes; I would certainly think so, Congressman. The State governments have been responsive. I think Mr. Kolberg's observation that the big job that faces us, first of all, was harnessing a lot of private industry people, first of all, into the program. Now we have got to make it work.

In this country, we do not have a long history of public-private cooperative ventures. It is a relatively new thing on the horizon for maybe 20 years of experience, and some maybe not very good experiences.

As far as the State government, though, they seem to have responded very well.

Representative **Lungren**. Mr. Semple.

Mr. **Semple**. I think, as in any effort of this sort, you will find rotten apples in the barrel, where there has not been a history of public-private cooperation and there is a great deal of historical antipathy or political problems between the business community and the State government.

It has been my experience from talking with our trustee companies, although I do not think they necessarily represent the whole lot, that they have enjoyed a relatively good success. Partly, it is because these companies are relatively large and where they do exist, they have enjoyed a better history of public-private cooperation.

I think the real interesting test will be in States that have not enjoyed them, and there are some that are going to have to make some adjustment. But I think with the support of the gentlemen here at the table, there is going to be considerable efforts on the part of the private sector to make sure that the environment is a good one.

Representative **Lungren**. I appreciate that because one of the concerns I have, and perhaps I am too skeptical on this sort of thing, but I have observed that most of the States, no matter whether they are represented by one party or another in the Governor's house, love to come to Congress and ask us for funds, but they never come and ask to share the deficit that we have. [Laughter.]

If they are used to the idea of us creating public service employment programs where we pay the money and they get their roads and their highways built, there might be a tendency to support those types of programs as opposed to really going full bore for this type of a program, which is really a departure from the past.

So I am pleased to learn from the three of you that, generally speaking, you see a commitment on the State level.

Mr. **Kolberg**. Congressman, if I could interrupt for a moment. The Governors Association, led by Governor Matheson of Utah and Governor du Pont of Delaware, pointed to the Job Training Partnership Act as really the first new federalism law on the books. They approached it that way and as a Governors Association, took it very, very seriously, I believe. Now, not every State has done perfectly at all. But I think as a group, as the 50, I think it has been a surprisingly good transition. They have taken it very seriously. In many cases, Governors have been personally involved in the transition; have personally picked the members of the State council; have been very much involved in designating the local service delivery areas.

So I would have to say in answer, Congressman, that, again, not perfect, but a very, very good performance on the part of the States.

Representative **Lungren**. Well, I would like to say that I am pleased to hear that. Last week we had a representative of the Ford Motor Co. appear before us and discuss the joint training venture between his company and the UAW. And he is also involved in the Job Training Partnership Act. He made a plea that we not make major changes in the Job Training Partnership Act before we have a chance to really get it started. He has suggested that one of the difficulties is that we have basically laid out a new ballfield upon which to play the game, that people at the local level, State level, and so forth, were used to the old CETA program, although they saw the problems with it. Now we have redone that whole thing and there is a settling out process that we must go through so that people familiarize themselves with that.

I would just ask is there a consensus from the three of you that that be the case?

Mr. **Semple**. I could not agree with you more on a personal perspective. When I was on the Labor Committee, involved in CETA, there was only 1 year through its entire life that there was not one major policy change. It is hard to tell the Congress to keep their hands off. [Laughter.]

Representative Lungren. Particularly in an election year.

Mr. Semple. Especially in an election year. [Laughter.]

Either they will add new things or shift it or reemphasize. And compounding with that, of course, there are appropriations differences and personnel differences in departments. It is very difficult to keep on track. But if there is any possible way that we can keep hands off this program, I hope we can do it.

Representative Lungren. Do you agree with that, Mr. Kolberg?

Mr. Kolberg. I agree.

Mr. Campbell. The biggest challenge, and Mr. Kolberg read some impressive names of companies that were involved in this program and involved in a very big way. And I think we have had, and I think my colleagues here would agree, that the larger corporations of this Nation have certainly seized upon this opportunity. They feel it as a responsibility to make it work.

The big challenge, though, is making, in some way getting all of the small businesses involved in the program, getting them to be a part of it, getting them excited about the opportunities that it provides for them as far as providing workers. And these small businesses, the heads of these small businesses have as much of a social consciousness about them as the heads of larger businesses, but getting them involved is a more difficult process.

I see this as really the big challenge that we have.

Representative Lungren. You anticipated my next question, which was going to be how well have the small business leaders been integrated into the planning of the implementation of the program? How much are they actually participating in the PIC's on both the local level and the State councils?

Do we have any data on that?

Mr. Campbell. I do not think we have any data. Our recent survey went out to the metropolitan chambers of commerces and we will be about the business of getting the kind of information that you are asking about. I do not know of any data that we have that would indicate involvement of firms of less than 500 involved.

Representative Lungren. And because you indicated in your testimony a significant amount of the new jobs created over the last decade have occurred with small business. That is consistent with every figure that I have seen on it. And it would strike me that we would be making a major mistake if we, as we should do, welcomed the contribution of the larger companies, did not make sure that the system has enough flexibility in it to attract the small business individual, the entrepreneur, at the local level.

And I guess that would be a question of the three of you: Is there sufficient flexibility in this system as it is set up by the legislation to allow that participation? I know it is a challenge for us to get these individuals, but is there enough flexibility so that it is something that someone on a local level, a local business person of a small size company can participate in and feel comfortable with?

Mr. Campbell. I think that there is, sir. The problem is complicated, I suppose, by the fact that small businesses are having equally as hard, if not a harder, time in coping with the recession and the coming out into the recovery. This, perhaps, is a hurdle that we are just going to have to deal with.

But as the economy recovers, I think we are going to see more and more small businesses, more and more involvement by small businesses.

Mr. Kolberg. There is certainly nothing in the legislation that inhibits small businesses being very much involved with the private industry councils. What worries me more, I think, is the thing that Mr. Campbell was alluding to, and that is how much volunteer time does the typical small business person have to give to something like this. And that is going to be the problem all the way through.

Essentially, what we have done is, by law, mandate a volunteer system. And volunteers cannot be mandated. They can be motivated and rewarded. We need to be very careful to staff these volunteer bodies so that the 4, 5, 6, 7, 8 hours a week that could be the most that a small business person could give, that time and that talent and that knowledge that that person has is captured and is used well.

I think that is the thing that we all need to understand, that we have mandated a set of boards of directors of volunteers, very busy people who have businesses to run and bottom lines to pay attention to. And it behooves all of us who spend a lot of time in trying to make this system work to understand that, and try to figure out what it is that encourages the volunteers to come forward and give their time and talents to the system.

Representative Lungren. I suppose one of the things that would be extremely important would be to make sure that their participation is appreciated, or their influence is felt, that if they have things to say about how a particular program is run or, as you suggest, as the PIC's become long-term institutions influencing the local vocational educational program, that it is not just the largest employer in the community who is listened to as to his or her employment needs, but the entire business community, including the small businessman or woman.

Mr. Semple, you indicated very strongly, but rather briefly, that there are problems with the Employment Service, the ES, that must be addressed. Would you be specific about that?

Mr. Semple. I do not want to take up the whole afternoon.

Representative Lungren. Just the highlights. [Laughter.]

Mr. Semple. The ES has been our most important—up until the PIC's, possibly—government labor market institution. It has been around since 1933 and we have never even looked at the program. We have occasionally held hearings on it, but that is about as far as we have gone. Yet there were serious management problems, stemming not so much from the quality of those the ES employs, but from the priorities of the system, which seems rather, I would say, confused.

The ES has had numerous missions over time. It seems to have adjusted with every change in the wind. After the war, it was mainly a veterans replacement service. In the 1960's it dealt with the disadvantaged. In the recent past it has emphasized placement. Since it has always funded itself by job placement, and has worked for a long period of time under a formula that awarded job placement just for job placement's sake, it has excluded other very important things that the Employment Service could do, particularly in the area of counseling and job search.

I think the system has become kind of calcified. I am hopeful that the provisions under JTPA, which will allow for a greater input of the PIC's into working out with the local employment service, may suddenly give it some more life.

But, right now, it is not viewed with the credibility that it needs to have. That is why I think we need some time to spend looking at the whole institution and how it is structured and what kind of priorities we establish for it.

Representative **Lungren**. Another question that was raised in previous testimony was a better job of matchup between job opportunities and people searching for jobs, and the suggestion that we do a better job of a computerized network on a national scale.

That prompted the observation that perhaps some States would not want to advertise the fact that they have jobs available if they have their own unemployment problem.

From a business perpective, would you suggest that we encourage a better coordination if computerized—it does not have to be computerized—but an easy-access, matching network such that we have a better idea where jobs are available, where they might not be available to the people who are there? In other words, people who are trained in other areas or have a willingness to work in that particular field would have a better knowledge of the job availability in another part of the country.

Mr. **Kolberg**. Congressman, I think we have some cruel dilemmas involved here. The problem with the job bank, job matching and computers is not the hardware. The hardware has been there all along. It is there now.

The hardware is far ahead of the willingness of employers to list jobs. It is garbage in, garbage out. Unless you can get employers like Mr. Campbell and 4, 5, 6 million other employers to see that the public employment service is something that they want to work with and there is something in return for them, all the hardware will not do it.

The question that has been looked at for at least 15, 20 years, maybe longer than that, is why is it that employers typically, do not list the jobs? Well, it is concern about Government intrusion, a legitimate concern about equal employment problems. If you give the Government more than they really have to know, they are going to come to get you.

There is that kind of fear. A lot of it is real. Most of it, I think, is economically motivated. Why should I list jobs? I never hire from the employment service, anyway. I do not expect anyone in this room has ever gone to the employment service looking for a job. Why? Because we are pretty sure that the jobs we are interested in are not listed there, because the employers that we work for would not list their jobs.

After saying all these dilemmas, however, does it not make sense, logical sense, that the more jobs that are listed in some kind of an automatic job placement, job matching system, is not that economic good sense? I believe it is. Most countries have one that works at least as well, probably a good bit better than ours and we really need to go back and readjust that. It may well be that you need the major business organizations to take it on as a responsibility to try to educate businesses on why it makes economic sense, why it is good business for each and every business to list jobs because of what they can get in return.

Like Nat, I suppose we could go on all day with the problems of the Employment Service. They are real. I think, as I said in my testimony, to tie the local employment service offices and the employers in that community with the private industry councils, over time, is going to make a big difference. What is going to happen? I think that is going to vary area by area. But I think just such a link will make the Employment Service a public agency that is responsive to the employers in that community.

Mr. **Campbell.** I think, though, Congressman, that the idea of a national network, or whatever, and while it may be very helpful, I think we need to explore long and hard this whole matter of whether or not we can persuade a displaced auto worker from Detroit to move to the west coast to work in an aircraft factory without some kind of assurance of a job and maybe even expenses of moving and so forth.

That is a very real and a very major problem. We do have some migration and within certain industries, I suppose, the construction industry is the best example, but the whole idea of moving families from one part of the country to the other because of the job available 1,000 miles away needs an awful lot of examination, I think, before we can find what we think is much of a solution.

Mr. **Semple.** I think Mr. Campbell's right on that point. Any study that has ever been made shows that if a person who does not want to move, they are not going to move. If a person's likely to move, they will move. But there is no Government policy that has ever swung them one way or another. I think, particularly where families and communities have been tightly structured, it is almost impossible to encourage a great deal of movement.

That is why I emphasize this notion of early job search. If people are unwilling to move, then there is going to have to be a good deal of attention devoted to the local situation.

I think the idea of a job bank—I might add that one of the reasons why the Employment Service is viewed with some cynicism. When they were doing the job bank, and this may have changed, one ES office used to hide a job from other employment services because that ES was funded by how many it had placed.

So they had this elaborate job bank system, but then individual ES's would hide the jobs. Needless to say, it did not work very well.

I think the problem in terms of employers providing the job service with job opportunities is a complex one. It involves a number of issues and sometimes it is a competitive question.

Employers tend to like to work more through their own associations if they are going to do any listing of jobs. I think that is because they trust them and there is a certain sense of confidentiality.

It all boils down to the credibility of the employment service. Maybe there is some way that we can upgrade the ES. I think maybe the PIC's can go a long way to establishing that.

Representative **Lungren.** One general question I would like to address to all of you. Mr. Semple, you indicated that there are some assumptions that we would all accept about certain changes in the labor market over the next few years. But you also indicated that there is a lot of dispute as to what we are going to have in the way of the job market. How do we distinguish between policy options when we cannot agree on the scenario?

In other words, we have had people testify here that one of the greatest shortcomings of the Bureau of Labor Statistics is they are not anticipating adequately and in a timely fashion the types of new jobs that are going to be rather large in the future. We have had testimony that one of the most important things we can have is flexibility in our educational institutions, both vocational and general academic institutions, such that they can respond to the new jobs that are available in their communities and stop training people for the old jobs that are never going to be there.

That all sounds good as a general proposition, but when you have all the different experts telling us different things about what type of jobs are going to be available, how do we create the flexibility in the system? Who do we listen to? Who are the best people to give us advice as to what jobs will be available, at least in the foreseeable future, so that we can have some of these institutions make those changes that are necessary?

Mr. **Semple**. Well, I raise this in my testimony. I think you are absolutely correct. We can fairly well predict what the labor supply will look like. But we do not know what the impact of technology will be in terms of demand. And I argue that since we do not know, we have to admit that we do not know.

I think we cannot predict. It is very hard to predict what the impact of technology will be or how it will play out. Therefore, I think what policies we need to pursue have to be geared to the fact that we do not know.

Now that may seem strange. But I think it does lead to certain policy options. One, that the policies should be tied to the market place as closely as possible. Since we do not know what the change is going to be, and only the market place really sends the signals as to what those changes are, it should be tied to the market place.

Second, it should be tied to the worker. It should be tied to the worker as closely as possible, because they are the ones who are going to most immediately respond to changes in the market place.

We cannot tell what is going to happen to worker A or worker B. We cannot even tell whether industry A or industry B is going to exist or survive.

No. 3, I suggest that if we do devise policies, that they be, in a sense, self-financing and cost shared. Now this is where there is a lot of disagreement as to what that represents. But there are some proposals that have been, and you will probably hear about it later, that head in this direction.

None of these proposals will call for establishing institutions now. But what they do call for is providing resources and a system of choice among workers to use those resources. If, in fact, the economy does go through serious structural change, and it depends on, in effect, the market place to provide the educational and other resources, I do believe the market place will, in a lot of ways, do that, either through vocational education or through businesses, themselves.

I think that businesses that fail will be the ones that do not provide retraining for their own employees as their competitive changes occur. I mean, it is obvious to me that there is going to be a lot more in-house, ongoing retraining among businesses as demand requires.

I think it will move so fast, in fact, that there will not be time to create Government institutions to deal with. Nevertheless, I think that this is the kind of thing that we are heading for and I think that is why I believe it is possible to look at some of these options.

Representative Lungren. Mr. Kolberg, Mr. Campbell, I would like to address the same question to you, but with the perspective of are the organizations which you represent adequately aware of these problems; that is, the problem of training workers for jobs when those jobs become available. And what is the participation that your businesses, those that you represent, would envision for themselves?

I take it, Mr. Kolberg, you believe with the PIC's institutionalization, that if they have a good working relationship on the local level with the entire community, that they can be a guide and they can be an influence on the local educational institutions to tie them more closely to what the business community is envisioning—that is part of the marketplace. If the business does not respond to the marketplace, they are not going to be in business very long.

Is there recognition of this role as well with the groups that you represent in terms of the possibility of the PIC's or outside the PIC's?

Mr. Kolberg. Well, I think both you and Mr. Semple, in describing the role of the PIC's, have stated it the way we see it. Over time, we see these new institutions becoming very much involved with and very informed on labor market facts. The industries that are growing, the industries that are declining, and the skill needs in that geographic area.

That is not to say that we have not had bodies, to some degree, with that responsibility before. The Employment Service has thought for years that it had that responsibility. I think it can be carried out much more effectively by the private industry councils over time.

As far as national prognostications on growing and receding occupations, I think Mr. Campbell said in his testimony that the Bureau of Labor Statistics now is saying that the major employment increases are not going to be in the high tech jobs, but more in the meat and potatoes of the labor market that we know so well—secretarial jobs, clerical jobs, waitresses jobs, chefs, a whole range of things primarily in the service industries. If you look 10 years ahead, employment in the large, the hundreds and hundreds of thousands of new jobs that will be created are going to come in those service occupations.

I would tend to believe that this is the case. That is not to denigrate those that say high tech is going to continue to boom. It will. But we are talking about the very, very large training requirements. Again, as Mr. Campbell pointed out, that is what the private industry councils are all about. The occupations that he listed, and I just relisted, are not things that take years and years of training. It takes some training; yes, to be proficient in those occupations. The private industry councils would be involved in planning and providing that kind of training.

Representative Lungren. Mr. Campbell.

Mr. Campbell. Congressman, you asked one question about what part American industry sees itself as playing in this training and retraining. American industry today, by the indications that we get, are spending some $30 billion a year on training and retraining and hiring of the workers they need. And I think that American industry sees this as a commitment. In some ways, it is somewhat inflationary in that if the educational delivery systems, the public and private systems, could deliver these people with the skills and training needed, these billions of dollars would not have to be spent, although I do think that American industry sees this as a necessity and they have a commitment to doing this.

I do not think that this great change in the complexion of the work force is going to change nationwide overnight, or within 5 years or 10 years, or 20 years, even. It changes in certain parts of the country and it changes with varying degrees of speed in certain sections of the country.

The educational institutions, the delivery systems of this country have historically overrun the supply of needed skills and professions in this country and I would think that—I was reflecting on this when you asked the question of policy. We have always done that and I would assume that we will continue to do that.

Right now, I think everybody from one end of the country to the other is teaching computer literacy and computer training and programing. It is going to be amazing to me if they can all find jobs in 5 or 6 years if this continues, if the interest of the students continues in that light.

We had it in social workers here 10 years ago. We trained enough social workers for everybody to have two. We have done that as part of our educational system.

I think that this is part of the risk of the free enterprise system. We have it in education as well.

Representative Lungren. Let me ask this. This is a general question, and then I would like to get to some specifics. But if what we are saying is we cannot fully anticipate or even, in some ways, largely anticipate the total changes that are going to take place in society, and I would just suggest that if you just go back 20 years, I am not sure how many people would have anticipated now the regularity with which the average American family goes to a fast food restaurant. They were not around. We think now that they have always been around, but you go back 20 years, if you were the average family, you would go out to dinner maybe once every 2 weeks. If you went to McDonald's, that is something you dropped your kids off at. You would not dare eat it.

I mean, that was sort of the concept we had. And now it is the regular thing. I guess more people go to fast food quite a bit more often than they do to regular restaurants and you find more and more families probably doing that more than they fix their own meals at home.

That creates an entirely different industry which has a whole lot of jobs. They are not high tech jobs. And except for those few who were smart enough to get into that business, I do not think a Government agency would have anticipated that would be the case. And that certainly has grown as fast as the high tech computer industry, even though we seem to give more attention to the first part.

And that prompts this question—is perhaps what we are talking about a rededication to the fundamentals? That is, if we create an educational system which teaches basic literacy—I am not talking about computer literacy. I am talking about literacy—that gives people basic skills and a basic confidence in their own abilities, if we do a better job of that, are not we in a better position, No. 1, from a governmental standpoint, to have those people deal with the jobs that they are given in the first place and the confidence to be able to accept the retraining that would be made available to them in any other type of program we give them down the line?

Ought we to be considering that in the first instance as the proper governmental response, not saying that there are not other things that we ought to do? Should we not be perhaps really emphasizing that from the governmental perspective as we try to sort out some of these other things down the line?

Mr. SEMPLE. I do not think that there is any doubt about that. We are starting to look at that at CED. Brad Butler, who is the chairman of Procter & Gamble, is initiating a study to try to define from the business perspective the educational needs of students who are not going on to college in terms of their future employment prospects.

But I do not think there is anyone now who doubts the importance of sound educational base to succeed in the economy. And I think that we are going to get there if the signs are correct. I really do. I agree with you completely.

Representative LUNGREN. We had a lot of testimony on the Immigration Subcommittee, of which I have been a member for the last 5 years, on the question of foreign labor versus domestic labor and a lot of our own people not having the skills to take certain jobs and therefore, we need them.

And in talking with a number of the business people for some time, I have tried to indicate to them that they have a tremendous ability to influence the local decisionmakers. And if, in fact, we are having difficulty in the area of math and science, there is no more powerful force than the employers of a particular community or a State making known through their workers as well as themselves how important this is and going in and very strongly fighting for those dollars for those programs, because we are all the losers and certainly your industries are the losers if you find that you do not have the people to do the job you have to do if you are going to compete overseas.

And maybe out of crises we finally begin to act. At least that is the way it works around this place. [Laughter.]

I guess it works that way with the rest of the world. I did not mean to interrupt you, Mr. Campbell.

Mr. CAMPBELL. Oh, I was just going to suggest the education committee of the U.S. Chamber is now looking at all of the studies of national prominence that have to do with the very thing that you are are talking about, just education and literacy and our shortcomings there.

I am convinced that out of that is going to come the very thing that you are talking about, about a basic education for those who are going to college or those who are going to enter the workplace.

I think, though, the one thing that we have got to keep in mind when we talked, we mentioned flexibility here and quite a bit lately, the free enterprise system, you know, our system in this country, is extremely flexible. We do bend and are pliable enough that we are able to accommodate our needs.

You mentioned the fast food business. It certainly takes a lot of a certain kind of people to work in that industry. But I do not know of any of the larger chains that are not aware of the fact that they have got to do an awful lot of training themselves. They build this into the overall pricing structure of their organization.

I should certainly hope that the Congress and all of us would continue to recognize that the free enterprise system in this Nation is a flexible one. We will meet whatever demands are put on us.

Representative LUNGREN. I do not have any doubts about it being flexible. However, I would observe that, by and large, the educational institutions of this country are not in a free enterprise mode. And without trying to unduly criticize them, because sometimes we change just for change's sake and that does not do a good job. But in many cases, there has been resistance to meeting the changing needs as would be identified in the work force.

Mr. Kolberg, you testified that the system of job service and counseling needs to be improved. Would you be specific on what you think needs to be done in that regard?

Mr. KOLBERG. Congressman, before I respond to that, could I just make a comment on the preceding colloquy?

Representative LUNGREN. Sure.

Mr. KOLBERG. I think one of the most dramatic examples of how good we are at making some national prognostications about what is going to happen in the labor market happened in the early 1960's when President Kennedy appointed the Automation Commission because the society was absolutely certain that tremendous numbers of jobs were going to be automated out of existence, not robotized, but automated. And that commission studied the problem. Out of that came the Manpower Development and Training Act, which was really the Federal Government's entree into this whole area. The entree into the whole area was not for the disadvantaged; it was for the displaced worker who was going to be automated out of existence.

Well, we know what happened; 20, 25 years later, we are now talking the same kind of program again. The robots are coming. Beware. Jobs are going to be lost, and we oftentimes, I think, get a scare tactic going, which I do not believe is going to be the case.

The labor market is one of constant adjustment and readjustment. And it is going through more change.

My hunch is that we will weather this, and I suppose those of us in the country that, for all its imperfections, love the free labor market and the free enterprise system, will see again that we are not very good, with 120 million people in our labor force, at prognosticating how they are going to behave and what is going to happen with new techniques and new technology.

But, by and large, we have done very well in adjusting over time.

Representative LUNGREN. Well, let me ask you a different question than the one I posed. We had a big dispute in the first hearing we had on this question, about whether change is going to come about so rapidly, that this throws all the old rules out and is so different than anything that we have ever had in the past, that we have to just take a whole new look at it.

I take it from your testimony that you do not believe that that is necessarily the case. We have heard some of these things before.

Mr. KOLBERG. If you had asked me that a year ago, I think I would have fallen into the tray of saying, gee, I am not sure. But, I believe if you look at the auto industry and the steel industry; yes, serious, serious adjustment problems are going on. And yet, the auto industry is coming back in a strong way. I think part of the problem was masked by a serious recession, without any doubt.

I do not mean to leave the impression that I do not support title III of the Job Training Partnership Act. I believe that is important. I believe that the public ought to share the costs of readjustment now with the private parties under certain circumstances. And that is essentially what we have started to do. For the first time in history, we have Federal tax dollars that help management and labor prepare adjustment programs for workers. And I think that is very appropriate, and I think over time, it will ease such transitions.

But, to characterize how dramatic this labor market change is, like nothing we have ever seen before, I would say that is not the case.

Representative LUNGREN. Well, I think that Mr. Semple gave me the best example of that when he mentioned what happened post-World War II. I had never really thought of that as an analogy, but when you think about the tremendous manpower being, in a sense, dumped on the private sector——

Mr. SEMPLE. It was tremendous.

Representative LUNGREN [continuing]. And all of the problems associated with that, particularly when you realize that prior to World War II, we really had not gotten out of the Great Depression, and all of the scare stories that came out of that. We are going to go back to a depression. Where will these people work? They could not possibly all find work. And the one overwhelming governmental response was probably the GI bill, which allowed people to work on their own initiative to do what they would with their own skills and train themselves for entry into the job market where they wished to go.

Mr. SEMPLE. Congressman, what is really significant about it also is that the training institutions developed in response in a market-oriented way, and this is why I tend to share Bill's point of view on this subject.

We are going through a tremendous amount of structural change right now. Tremendous amounts of structural change that may not appear every day in the front page of the newspaper, but that where the market system is responding, either in terms of providing education or whatever. I think the school systems are responding to the current problems in the school crisis, though I think there is a lot more that needs to be done.

But I also tend to share the view that the economy has in the past, and that is a perfect example, shown an extraordinary ability to meet these kinds of changes.

Representative LUNGREN. Let me ask this to all three of you. What do you think about proposals for further tax credits to assist in employment of the unemployed? We have had various proposals and have various things on the books for if you hire someone who is a former convict, if you hire someone who is a teenager, if you hire someone who is a minority, if you hire someone now, the suggestion of displaced worker, and so forth.

Do you think that is a viable approach that we ought to build on further?

Mr. CAMPBELL. Congressman, I think it is. I think one of the reasons in the past 2 or 3 years, perhaps 36 months, that it has not been used as much is because of the recession. A tax credit to a company is no good if they do not have a profit against which to apply it. And as long as we have been in this recession, we have had many, many companies that have not participated, been able to participate for that reason.

I think as the recovery grows, that you are going to find, we are going to find, that more and more people are going to participate and I think it is a very viable program. It perhaps does not have the visibility that it needs to have.

Representative LUNGREN. Mr. Kolberg.

Mr. KOLBERG. I think it has important possibilities. But we have been saying that now for a decade. And one of these days we are going to have to face up to the realities that up to this point, with the possible exception of the new 85 percent summer employment tax credit for low-income 16- and 17-year-olds, tax credit programs really have not changed very much employer behavior.

In other words, it has not been used. Now we can point to a whole number of reasons why. The Treasury has yet to issue regulations for the targeted jobs tax credit, so there's some uncertainty about how it will be administered. The Government has not done a good job publicizing it, and I must say that we in the employer community have not done a very good job publicizing it, either.

The accounting profession has been slow to publicize it, as well.

So there are some logical reasons why it has not been used. But given those reasons, it still does not explain the lack of uptake on the part of employers. Is it because it is not enough? Is it because they are worried about Government intrusion? As I spoke earlier about employer attitudes toward the Employment Service, I don't think we know the answers.

Given all that aside, I much prefer automatic mechanisms like tax credits to straight subsidy programs. By that I mean if an employer wants to hire someone who fits the following categories—essentially low income or with a major barrier—the Federal Government says, you hire them, we will give you a tax credit. That is the whole program. The more of that we can do, without all of the intermediaries and all that kind of bureaucracy, it seems to be the better off we are. And it keeps the Government out of the employing process, except to grant the employer a quid pro quo—you do something that we think is socially desirable, here are the dollars that go with it.

Representative LUNGREN. What is the basis for your conclusion that it worked well this summer?

Mr. KOLBERG. Well it is really tentative so far, Congressman Lungren. We have operated a summer program on the private side for 15 years. We were in touch with a number of businesses, a number of private industry councils and, uniformly, they reported that the takeup this summer was very, very much larger and that the programs themselves were much more effective and extensive than they have been in the past.

Now we are going to have to wait until the numbers come through from the employment service. The certifying agencies are the State employment security agencies. And so until those numbers are put together, we are just going by hunch and that is why I say we are very tentative.

Representative LUNGREN. Mr. Semple, about the tax credit?

Mr. SEMPLE. You know, we are getting an impression that we always agree on everything here from the business community. [Laughter.]

That does not always happen. And I suspect there is some feeling among some of our trustees that the tax credit will not greatly change an employer's decision to hire or not to hire. It is almost always going to be a competitive decision.

What the tax credit really is it is a queuing mechanism. It says, if you are going to hire someone, will you give this priority, person A, as versus person B. That is really the question of policy, whether you, in fact, want to give that person a preferential treatment.

If it is, then it is a useful device, but it does not necessarily mean that you are going to reduce unemployment because it is—I will put it another way. It is a static kind of situation. The other person is going to be unemployed as well. And what you are ending up doing is having a queuing process.

So I think we are somewhat suspect of tax credits. But I will not say we are against it.

Representative LUNGREN. Mr. Semple, you mentioned that CED trustees are generally in support of general reform of the unemployment insurance system. Can you be more specific? What do you think are some of the deficiencies of the system now?

Mr. SEMPLE. Let me back off of that a minute. I would not say right now a total reform of the UI. What I meant to say was that they have been supportive in the past of linking UI into a training-type mechanism.

They are dealing now with the question of whether it needs more substantial financing reform. And they will be dealing with that at the end of the week. I do not know if they would support that or not.

Representative LUNGREN. OK. With respect to the question of training, would that be utilized only for training of those people who are already unemployed? Or would it be workers who were currently employed with the prospect of unemployment?

Mr. SEMPLE. Well, the policy option we are concerned with this week only deals with those who are currently on UI and not currently employed. They have not considered, and I do not think we will consider, a policy much as the one that Mr. Bendick has advocated, which is to find a way to provide training for those who are currently employed to obtain new skills.

You are basically talking about tying it into UI.

Representative LUNGREN. Mr. Kolberg.

Mr. KOLBERG. I think we are spending $23 billion this year on unemployment insurance. And I believe our view would be that somehow some percentage of that ought to be used, instead of for what is sometimes mockingly called rocking chair money, for some positive readjustments—training or retraining.

Why would it not be possible at 13 weeks or at 26 weeks to interrupt that cycle, take a look at the individual involved and their skills and their possibility of either being recalled or finding that kind of work in that community, and then put them in a training program either for the same amount of money that they otherwise would have collected in income maintenance or perhaps even with an additional incentive. Make it worth their while dollarwise to go to school.

Again, we do not have a number of specific proposals. It just seems to us that we ought to continue to work on that.

Now the problem always with the employer groups like the ones we represent is that the same people talking that way are the people that are paying the bills every month. And they see their unemployment insurance bills continue to rise and their States approach bankruptcy or whatever.

So any time you start tampering with the kind of huge, expensive system, particularly in a recession, most employers will not listen to you longer than to find out whether his tax payment is going to go up or not and do not want to hear a lot about this kind of readjustment mechanism.

I do not know where we are finally going to come out, but I think over time, we have got to figure out more effective ways of utilizing that tremendous social system for more positive readjustments.

Representative LUNGREN. In looking at that, would you be looking, yourself, at use of the funds for training for the unemployed—the reason why I say that is, that is a major precedent you would be establishing if you were to use those funds for the not already unemployed—to use some of those funds to assist the training of an individual who was currently employed is a little bit different than what you have utilized it before for. But, nonetheless, it is targeted to the same person.

If you then make a decision that you are going to allow that unemployment money, that fund, to be utilized for training of people who prospectively would be unemployed, at least it strikes me as a tremendous change, and I do not want to say a raid on that fund, but an opening of that fund for purposes for which it was not initially utilized. And if we are having trouble paying for the unemployment insurance at present, at least my thought would be you might be opening it up to be used for all sorts of things and who knows where it would end and how are you ever going to fund it for the specific purpose for which it was begun?

Mr. KOLBERG. Well, your State, for instance, has been very successful in its new program of assisting employers to smooth out their employment/unemployment problems. So that the State pays unemployment insurance for a day or two for a number of people, and the plant pays the rest.

I gather, without having done a lot of study myself, that the State seems to be pleased that that has worked.

The value of that arrangement is quite clear. You keep the worker connected immediately to the enterprise. You keep the enterprise going.

The concern, of course, is that you are subsidizing an inefficient enterprise, that you do not know it until after the recession goes away and you find you have on your hands an enterprise that really cannot compete any longer.

That kind of intervention in the labor market is always fraught with all kinds of danger. And yet I would reiterate, it seems to me that those kinds of experimental things that the States have been willing to try, some of them are going to work, ought to be encouraged because of the size of the problem and the size of the dollars that are now being spent on just plain, everyday income maintenance.

Representative LUNGREN. Mr. Campbell, on the question of some modification of the unemployment insurance system.

Mr. Campbell. I think that, with relation to the U.S. Chamber would be that we would be against any hike in the tax structure. I think it is pretty well common opinion among the business world that the system is inefficient, sluggish, and certainly needs reform. I do not know that I am in a position today to address that whole problem.

If other services were provided by those organizations in the various States, it seems to me that they ought to be funded from some other source rather than increase the taxes.

Representative Lungren. I would again like to address the panel, all three of you, on the question of individual training accounts. As you know, let me just generally state the concept as opposed to a specific approach, the idea, much like individual retirement accounts, that you would set up an account to which there would be a contribution by the employer and the employee, which would be nontaxable. And if at some point in time that employee became unemployed, to be used for training purposes. And if at the end of his worklife had not had to utilize it, it would then have the funds go back to him and he would then pay tax on them at that point in time.

Generally, that is the concept. Do you think that it is something that we ought to take a look at? Does it hold much promise? What do you think?

Mr. Semple. That is part of the concept that I talk about in my testimony that Pat Choate has conceived. There are all kinds of variations on the same theme.

We tend, at CED, to support taxation policy that puts tax on consumption and not on investment. If one takes this as an investment and future training requirements for the Nation, then it does seem to have some possibility.

I think it is such a new idea that there is going to be a lot of suspicion about it. There is also going to be concern about the tax consequences. Always so, there is concern about tax loss to the Treasury. A new tax expenditure, so to speak.

But the one option, the one thing that I do like about the concept, as I understand it, is that it is voluntary, voluntary on the part of both the business and the individual. It is not mandated.

The hurdle that would have to be overcome is whether the tax committees would be willing to give up some more money. Also there is the question of usage as well. I think there are a lot of administrative problems that you have to go over, whether the training is certified and by whom and all these kinds of administrative arrangements.

But, yes, I think you should look at it.

Representative Lungren. Mr. Kolberg.

Mr. Kolberg. I think it is worth looking at, Congressman. But, as I think I said in my testimony, it seems to me that we have so many more pressing, important things that need to have some attention. The ongoing systems themselves that we are already committed to, we are already spending multiple billions on. It seems to me that most of our time and attention ought to be spent on that.

As far as the problem itself is concerned, I have not seen data that convinces me yet that the training situation in this country is of such a nature that we need to put together a brand new Federal program to address it.

Representative Lungren. Mr. Campbell.

Mr. **Campbell**. It would be interesting. I think with the bad reviews that Social Security has gotten, for instance, over the years about being almost bankrupt, that if it, indeed, is a voluntary thing, I think you would have—I think we would have a problem of convincing a worker that he ought to put aside another piece of his weekly pay or monthly pay to provide for that.

If it is worth its salt, that it should be looked at, perhaps on, certainly on a pilot program rather than a nationwide.

Representative **Lungren**. That goes back to my whole question of whether the obligation that we have is to make sure our educational institutions are there serving the need with basic education, and then retraining as far as a community can determine those needs, and whether we go beyond that.

I mean, do we provide incentives for someone to do that? Do you just have it out there where the individual can partake of that opportunity if he or she wishes? Do we have a further obligation to pay them to go to that sort of thing? Do we have an obligation to encourage them through tax incentives to do that sort of thing?

There is a whole host of questions that I think we have to ask and the one person who would really be asking it, I suspect, is the taxpayer who did take the opportunity to spend the time to go to school at night instead of watching Monday night football, perhaps, and is trained and makes the transition and his neighbor, who decided that he or she didn't want to do that then comes along, at least from his perspective, and says, hey, I have lost my job. Now you have an obligation to pay me income maintenance while I go take the training that you took a while back.

A lot of this not only do we have to look at in theory, we have to look at in practice. And the perception of the individual taxpayer is they wonder who has to keep paying and keep paying?

And I do not mean to soft sell the problem that we have facing us with respect to worker training. But I do think that we have to look at those questions as well.

Mr. **Semple**. Can I add one more thing about the IRA? I would not quite agree with Mr. Campbell that it is akin to Social Security. The current experience with our current IRA has been rather favorable. And since it is tax-deductible both to the employer and to the employee, there is a considerable incentive.

Actually, Senator Quayle has introduced a provision to allow the current IRA's to be drawn down for training re-use if a person is deemed to be dislocated, without incurring the tax penalties. Eventually, the IRA, whether in this case, the regular IRA or one like this, will be taxed when it is received at retirement or it can be drawn down. It is not mandated like the Social Security system.

The ultimate question is whether you think this is an important enough incentive to include in the tax system. That is really where the issue comes down, because, ultimately, it would be your choice or my choice whether to take it. And we are not necessarily robbing my next-door neighbor because we choose to take it, just like we are not necessarily robbing them if we choose to go with an IRA right now.

Representative **Lungren**. We are going to have an opportunity to hear from Mr. Choate on his plan. But in the Congress, as we are hearing about the idea of an individual training account and making changes to the individual retirement account, we now have the IHA being considered in the individual housing account. We have the individual education account.

And you put them all together and it seems to indicate that, by bits and pieces, we believe that we can provide incentives for people to do something if we tax them less. But we only do it piecemeal because we are afraid if we tax them less across the board, we will not raise the taxes necessary to pay for everything that we think ought to be done.

It is kind of funny. Some up here on the Hill snicker about supply-side economics and the ability of tax rates to make a difference; yet, in virtually every field across the board philosophically, we think it makes a great deal of sense to create all these different accounts.

And we all do that and at the same time we hear people saying, how about just a flat tax rate? And everybody says, that is a great idea, while we proceed along with all these other changes.

Mr. SEMPLE. Actually, it would all be solved if you went to a straight consumption tax and that would be the end of that because that is what all these things basically are parts of.

Representative LUNGREN. I know. But think of all the committees that we would have to disestablish. [Laughter.]

Ways and Means would not have the power that it has now. [Laughter.]

Doggone, you could not have all the raising and funds and so forth. Unbelievable. [Laughter.]

Let me just ask one last question. I appreciate your indulgence in being here this long and giving us your ideas on both your prepared statement and your answers to questions.

But, as I understand, there are some in the business community, it may be a prevalent view—I do not know. I would like your advice on it—who are reluctant to assist in the improvement of the skills of the workers if that would also increase the mobility of that worker in the work force, either just in the work force there or geographically.

Is the possibility of losing a trained worker through training that they received in part from assistance by the already existing employer perceived as a problem confronting the business community? Does that go into the equation at all?

Mr. CAMPBELL. I do not see that as a problem at all. I sure do not. In fact, I do not know that I have ever even heard those kinds of views expressed or talked about within business circles.

Representative LUNGREN. Mr. Kolberg.

Mr. KOLBERG. Some labor markets function the way you described. For instance, I think it is fair to say in Cincinnati that machinists want to work for General Electric because it is unionized and it is high wage. And so, typically, small machine shops train machinists and ultimately, too often, they get hired away.

That happens, I think, in the labor market all the time. Better wages attract people from low wages. I expect that there are a number of other places in the country where you could say that is the reason. At the same time, the machine shops in Cincinnati are probably continuing to train people, recognizing at some stage they may lose them, because they need them to continue to make a profit also.

So it just seems to me that such a flow within the labor market, with the kind of a labor market we have, is just built in. It is desirable. One should not try to frustrate it. And I doubt you could put together any programs that would or could change it very much.

Representative **Lungren**. So that is not an attitude that interferes in the business community with a commitment toward retraining.

Mr. **Kolberg**. I do not recall ever having had that kind of a conversation. The phenomenon is recognized. It is a regular phenomenon. Of course it is.

Mr. **Campbell**. That is the free enterprise system. It works for businesses and people as well.

Representative **Lungren**. Mr. Semple.

Mr. **Semple**. I could not agree more. In fact, I think the opposite view would be held by our trustees. The feeling would be if they did not train their employees, they would not be competitive for very long.

It may occur in various sectors of the economy, as Bill has pointed out, but I have never heard one word of that.

Representative **Lungren**. Well, I just want to thank all three of you for your testimony. You have helped us deal with an issue that we are not going to solve any time soon. One of the strong points of the Joint Economic Committee is that we are not a legislative committee, and a strong point from the standpoint that we do not have to be committed to a particular piece of legislation when we hold hearings. We try and take a broader view of it and perhaps come up with some ideas or some comprehensive approaches.

We really do appreciate the time you have spent and the obvious attention that you have given to your testimony. Thank you very much.

[Whereupon, at 11:55 a.m., the committee adjourned, subject to the call of the Chair.]

INDUSTRIAL POLICY: THE RETRAINING NEEDS OF THE NATION'S LONG-TERM STRUCTURALLY UNEMPLOYED WORKERS

Training and Labor Market Policies

WEDNESDAY, OCTOBER 26, 1983

Congress of the United States,
Joint Economic Committee,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 1310, Longworth House Office Building, Hon. Daniel E. Lungren (member of the committee) presiding.

Present: Representative Lungren.

Also present: Charles H. Bradford, assistant director; and Mary E. Eccles, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE LUNGREN, PRESIDING

Representative Lungren. Welcome, gentlemen.

This is the final in a series of four hearings before the Joint Economic Committee on the industrial policy implications of long-term structural unemployment. The first three hearings that we had tended to focus on the size of the problem and the adequacy of current labor market policies to help those who are, or may be, unemployed for prolonged periods of time.

Despite a steady decline in the Nation's overall unemployment rate, what some call structural unemployment is, and may continue to be a serious problem. This is attributed by some to the unique characteristics of dislocated workers. They are usually older, have lost career jobs, and suffer from skill obsolescence. To others, however, it reflects primarily the problems of young workers who frequently can only find temporary, low wage jobs. In its previous hearings, the committee learned that even though the economic transformation of America is gradual, it is important that individuals, businesses, unions, and all levels of government recognize that the skills of the labor force must keep pace with change. By working together, these groups can do much to reduce the pain of an inevitably changing economic structure, and provide for a more vigorous, prosperous economy.

Several important guidelines for designing training programs have emerged from the hearings to date. Directors of innovative State training programs testified that training should begin before workers become dislocated. They also urged that training programs be flexible, recognizing that not all areas of a State or even a county have the same training needs. Business and labor groups testified that it is important that the private sector be involved in training. They agreed that training should begin early, and that employers should have a role in determining what types of jobs people should be trained for and the skills needed for those jobs. All of the witnesses stressed that counseling, job search assistance, and basic skills literacy are most important to dislocated workers.

Today we will hear from three distinguished economists; two of whom are already here: Mr. Pat Choate, senior policy analyst from TRW, Inc.; Prof. Lawrence H. Summers, Harvard University; and Prof. John Bishop, Ohio State University. These gentlemen will discuss labor market policies and proposals for solving the problems of long-term structural unemployment.

This committee is particularly interested in examining the feasibility of individual training accounts, employment vouchers, tax credits, and specialized programs to deal with critical skill shortages. The committee is also interested in hearing testimony on ways to reform the structure of labor markets so they can perform more efficiently.

I would like to again welcome the panel, two-thirds of the panel so far, and thank you for taking time from your busy schedules to be with us and to ask Mr. Choate if you would start off for us.

STATEMENT OF PAT CHOATE, SENIOR POLICY ANALYST, ECONOMICS, TRW, INC.

Mr. CHOATE. Thank you very much, Congressman. It is a pleasure to be with you this morning and, with your permission, I will submit my prepared statement to be printed in the record of the hearings and then briefly summarize it for you.

Representative LUNGREN. That is fine.

Mr. CHOATE. There is a growing awareness that a major issue in our economy, as indicated in your opening statement, is that of structural unemployment. It is my own view we are going to see structural unemployment continue to be a major issue within our economy.

It is an issue for a variety of factors, not the least of which is the rising competitiveness of foreign competitors and their access to the U.S. market; and second, the scope and pace of technological change which is affecting employment in a wide diversity of industries—manufacturing and service.

Every evidence suggests that these changes and dislocations being created by these forces will continue over the coming years, if not even accelerate.

In addressing these issues, I think it important to recognize that the Nation has many institutions that provide a firm foundation for grappling with these challenges. The country has an extensive system of colleges, community colleges, and postsecondary education institutions. It has a large, and I believe, healthy set of proprietary training institutions. It has an unemployment insurance system, though experiencing stress today, that nevertheless provides an institutional base for making additional changes.

There are laws on the books that provide for labor market exchange systems, job banks, that can speed the processes of adjustment.

But equally obvious, I think that there are some gaps in our institutional networks. One that is substantial is the availability of an explicit mechanism to deal effectively and comprehensively with the wide-ranging displacement that we are now seeing in employment.

This is not to imply that this issue has not been addressed before. It has. Over the past 20 years, an array of some 22 Federal displaced worker programs have been put in place. These programs are characterized, however, by a rather narrow focus and by limited funds.

The most recent of these, of course, is title III of the Job Training Partnership Act, which for the first time provides a broader approach but which, like many categorical programs, has the restraints of availability of funding and the inflexibility that categorical programs or even block-grant programs always seem to bring.

My thoughts about additional displaced workers programs divide into several parts. At its heart, though, there is no one specific action that can do the job by itself. There are a series of actions that need attention.

(1) There is the need, I believe, to have better labor market information, the jobs bank, a better worker-employer matching system, using the existing authority and the existing institutions that already exist. Many unemployed people can get back into the work force simply by having a better idea of where the jobs are and for employers to have an idea of the people who can fulfill those jobs. That is a relatively inexpensive task and certainly it is a task that the United States has set out to do anyway.

The second challenge is to make sure that our public training institutions are kept at state-of-the-art levels. The 4,000 vocational, technical, community colleges, postsecondary institutions that we have created over the past 20 years provide a sound foundation for offering a wide and diverse array of training. My particular concern is that many of those institutions find themselves with their equipment becoming obsolete. Buildings are in good shape on the whole; they will last probably well into the 21st century; but there is a necessity to have some program to modernize the equipment and perhaps improve the skills of faculty in those institutions.

The third and final challenge, I think, is to find a flexible financing mechanism to underwrite retraining.

To provide such financing, in my testimony I suggest seven basic principles that should guide the creation of any new mechanism.

The first is individual choice. The second is comprehensive coverage. The third is the linkage of displaced workers to the income support; in other words, the UI system. The fourth is as early an intervention as possible. The fifth is assured financing. In other words, so that we are not faced with the financing difficulties of the system today. The sixth is flexibility. And the seventh is, rather than to invent new systems, to improve on that which already exists.

At its heart, the individual training account system I describe in my testimony would be a program based upon two experiences of the past that seemed to work—the GI bill, the voucher-based system; and second, upon the IRA in which individuals would make contributions and build up a personalized fund.

As to how an individual training account could be created, there are a variety of ways. It could be done by simply modifying the existing IRA laws. Or a third trust fund could be set up by the Federal Government.

A system could be created that would be mandatory. Or a system could be created that would be voluntary.

Each of the particular options of an individual training account obviously has advantages. Each has disadvantages. What I am suggesting, however, is that some new financing mechanism is required and can be created that would meet those seven principles.

I am also suggesting that there is no one single solution to deal with the issue. What is important is to build up the mosaic actions, each one of which can make an improvement, each one of which would reinforce the other actions.

So with that, Congressman, I conclude my summary.

[The prepared statement of Mr. Choate follows:]

PREPARED STATEMENT OF PAT CHOATE

Mr. Chairman and Members of the Committee:

I am honored and pleased to have this opportunity to share with you my thoughts on a topic of growing importance to our nation -- long-term structural unemployment. And in fairness to the Committee and my employer TRW, I do wish to emphasize that the views I express this morning are my own.

In the current era of fierce international economic competition and rapid technological progress, profound and irreversible structural shifts in the U.S. economy are becoming widespread and indeed inevitable. As a result, large numbers of American workers are now experiencing difficulty in the labor market.

Over 26.5 million people were unemployed for some part of 1982, up from 23.4 million in 1981 and 18.2 million in 1978. When workers compelled to accept part-time jobs or sub-minimum wages are also considered, the Bureau of Labor Statistics estimates that nearly a third of all American workers are experiencing employment problems.

Some of these workers were only temporarily unemployed while changing jobs, of course; others are being recalled to their old jobs as the economy continues to expand. But a large number of workers perhaps as many as 2 million according to the Congressional Budget Office -- have been displaced from jobs that are gone forever.

The irrevocable loss of over 300,000 jobs in the auto and steel industries is but a highly visible indicator of widespread structural changes that likely will affect many other industries and millions of additional workers in the years ahead. Peter Drucker predicts that in this decade and the next, 10-15 million manufacturing workers and at least as many service workers will be displaced as a result of automation, plant relocations, and domestic and international economic competition. Even if Drucker's vision of the future is only half correct, such massive worker displacement represents a major structural transformation of American employment.

The displaced worker issue is not new of course, but its mounting personal, economic and political costs have crossed a threshold where action beyond sound, non-inflationary fiscal and monetary policies is warranted. Yet, institutions in neither the public nor private sectors are adequately prepared to assist displaced workers find and prepare themselves for new work. The programs available to meet this need remain narrowly focused, fragmented among 22 grant-in-aid programs that reach only a small portion of displaced workers. Moreover, those programs designed to assist unemployed workers generally--the Employment Service or Unemployment Insurance system, for example--have not been effective in helping the displaced to find new work.

Most displaced workers have job experiences, habits and skills that can be redeployed--but only in another place or in another type of job. Although most of these workers will continue to need jobs, many will be unable to find them until they get reliable information about job vacancies, retrain or relocate.

If the United States is to keep pace with, even be ahead of, the velocity of economic and technological change, then the nation must be prepared to help its workers adapt to changing economic threats and opportunities. Creation of an effective displaced worker program must therefore be a primary objective of employment and training policy.

THE PROBLEM

Not surprisingly, there is little agreement on either the magnitude or economic importance of the displaced worker problem. Very little research has been done of this subject. Debate centers on whether or not displaced workers encounter unacceptable difficulties in finding new work and therefore whether public policy should be structured to assist these workers.

Opponents of government intervention contend that worker dislocation is a temporary problem that will be alleviated as economic recovery takes hold, providing new job opportunities for displaced workers. Proponents of adjustment assistance argue that displaced workers lack the skills needed to move readily to another job and therefore face extraordinary reemployment difficulties that are costly not only to the workers personally, but to the whole of the U.S. economy as well.

But by any measure, there is a very serious displaced worker problem. Moreover, the problem is not a transient one, but rather one that is likely to persist for at least two decades. Further, by failing to speed the reemployment of these workers, the nation is incurring many costs--economic, political and social--that are both high and unacceptable.

There is no precise count of how many displaced workers there are in the United States. Perhaps the best available data have been prepared by the Congressional Budget Office (CBO). Using a conservative array of single criteria, such as displaced workers over age 45 or workers in declining occupations, the Congressional Budget Office estimates that between 840,000 and 2.2 million American workers have been permanently displaced from their old jobs.

Obviously, the number of displaced workers would be substantially higher if the total included other categories of displaced workers--for example, those under age 45, those in stable occupations, or those residing in economically vital areas such as the displaced Atari workers in the Silicon Valley. Conversely, if additional criteria or restrictions were considered, such as raising the definitional age to 50 or considering only workers in the automobile industry, the number of workers categorized as displaced would be reduced.

Even under the CBO's fairly restrictive definitions, however, it is obvious that very large numbers of workers are permanently displaced today.

The continued unemployment of these workers creates high costs to the economy in terms of the diminished competitiveness of individual firms, reduced Gross National Product because of lost production, increased demands on the Unemployment Insurance system, and a greater reliance on social programs such as welfare and food stamps. Moreover, the high personal costs to the affected workers and their families are incalculable.

Politically, the displaced worker issue is sensitive because those affected are concentrated in specific industries and locations. The Congressional Budget Office reports that among workers displaced from declining industries, such as automobiles and steel, more than 70 percent reside in the Northeast and North Central states.

Also, many of the displaced are blue-collar workers who tend to have less training and education, and therefore fewer job opportunities, than do professional and managerial workers. Since many of the industries now affected are heavily unionized, those hired most recently are usually the first to be laid off; over 75 percent of collective bargaining agreements use seniority as the sole or primary factor in deciding who will be laid off. Consequently, the burden of dislocation falls disproportionately on young workers. At the same time, the hardships of adjustment are often most severe for older workers who are displaced. The Congressional Budget Office reports that 26 percent of men aged 19-26 migrated when laid off. But among men aged 45-59 who were laid off, only 7 percent migrated.

Because displaced workers are so heavily concentrated in particular industries and regions, political pressures for action fall overwhelmingly on specific governors, legislators and Members of the Congress. This intense political pressure is a major force behind calls for protectionism, as well as the plant closing legislation enacted in Wisconsin and Maine and introduced in 26 other states.

Existing Programs

The displaced worker problem has not gone unnoticed by either the government or the private sector. Over the past 50 years, the federal government has created many programs that provide displaced workers with a range of assistance, from information and counseling to income maintenance and, though rarely, retraining.

The oldest of these programs--the Employment Service helps unemployed workers generally. In addition, 22 federal grant-in-aid programs, most of them created during the past two decades, are designed specifically to facilitate displaced worker adjustment.

Unfortunately, most of the programs available fail to provide the job information, retraining or relocation assistance so desparately needed by displaced workers today. Between 1976 and 1980, for example, $16 billion was spent on extending Unemployment Insurance benefits beyond the normal entitlement period and an additional $2 billion was spent on Trade Adjustment Assistance, the most extensive displaced worker program of that period. Yet those $18 billion of expenditures included only $53 million--one-half of one percent of the total--for retraining, job-search and relocation assistance. The public programs available to displaced workers, in short, are simply inappropriate to the challenges of today and to those that lie ahead.

A few companies, in cooperation with the unions representing their employees, have established special programs to assist displaced workers. For example, Ford, General Motors, General Electric and, most recently, AT&T will provide displaced workers with extra severance pay, retraining or out-placement.

Under the 1983 contract between the Communications Workers and AT&T, training and retraining will be available to workers whose jobs are affected by technological innovation. These programs will be financed by the company and administered jointly by AT&T and the unions. For workers who are going to be laid off, the company will provide up to $2,500 for job training and relocation assistance.

PRINCIPLES TO GUIDE REFORM

Many actions, some long overdue, can be taken to improve existing displaced worker assistance programs. But other actions must center around new policies and programs, including new financing mechanisms that will have permanent solvency.

These reforms need not be made all at once, but can be undertaken individually, as time and circumstances permit. To ensure that individual reforms will eventually fit into an ordered whole, however, it is necessary to define some basic principles that should guide both the reform of existing programs and the creation of new ones:

1. Individual choice.

   Ultimately, the displaced workers themselves bear the major costs associated with structural unemployment and have the most to gain from their own reemployment. Thus, to the full extent possible, these workers must be given individual choice in the basic decisions made in any adjustment assistance program.

2. Comprehensive coverage.

   Because the incidence and timing of structural unemployment are difficult to predict--potentially affecting anyone, anywhere--any program to assist displaced workers must cover everyone who is displaced.

3. Linkage of displaced worker assistance to income support.

   Any new displaced worker assistance program should be linked to the Unemployment Insurance system.

4. Early intervention.

   Under existing displaced worker programs, too long a period is permitted to elapse before action is taken. This slows the processes of worker adjustment and raises the costs to both business and government of operating the UI system. Earlier intervention is urgently required.

5. Assured financing.

   If comprehensive coverage and early interventions are to become a reality, assured financing is needed. This will require a new financing mechanism that does not depend on annual appropriations from the federal, state or local governments.

6. **Flexibility.**

Because of the uncertainty of structural change, any displaced worker adjustment assistance system must be flexible enough to meet the diverse needs that may arise.

7. Improve existing systems.

Many of the elements of an effective comprehensive displaced worker program--such as the Employment Service and UI system--already exist. Wherever possible, therefore, the improvement of existing programs should take precedence over the creation of another layer of competing programs.

Reforms in current programs will substantially enhance the quality and effectiveness of the nation's displaced worker assistance efforts. Even after existing systems are improved, however, the linchpin of a comprehensive displaced worker assistance program will have yet to be put in place--namely, a new financing mechanism that will effectively guarantee the availability of retraining and relocation assistance for the millions of workers whose jobs will be abolished in the years ahead.

FINANCING MECHANISMS

The costs of retraining will be high but not prohibitive. Moreover, not all workers will need or want retraining -- perhaps as few as 15 percent and as many as 50 percent of the displaced workers are likely to take retraining, retire, take a lower paying job or be unwilling to move. The needs of others will be served by the provision of improved counseling and adequate job market information. Simply put, no one knows how many will want or need retraining -- only that many will. Thus, a flexible approach is required.

The American Society of Training and Development estimates that training costs $3,000 per worker. Even if there were 4 million new displaced workers each year, therefore, annual training costs would total approximately $6 billion if as many as half took retraining.. This is only half of what was spent annually on CETA and approximately a fifth of what is now paid out in UI benefits. Moreover, if quick action is taken at an early point--perhaps as soon as it is known that a worker will become displaced but before he or she is laid off--it may be possible to reduce the nation's UI outlays, perhaps substantially.

There are a number of alternative ways to finance a comprehensive and flexible displaced worker assistance system, including direct federal or state funding; the use of some part of UI entitlements for retraining; or the creation of a wholly new self-financing mechanism -- the Individual Training Account (ITA).

The Individual Training Account (ITA) would be a flexible, simple-to-administer, self-financing system designed to speed the reemployment of displaced workers by providing funds for retraining and, if necessary, relocation as well. Because it is self-financing, the ITA would not add to the already severe financial pressures on the UI system; nor would it depend on annual grant-in-aid appropriations appropriations from the Congress.

The ITA would be both a voucher-based system modeled on a very successful national retraining program, the G.I. Bill, and a savings- and equity-based system analogous to the Individual Retirement Account. The Individual Training Account would be tied to the worker and not to the job. Total contributions to each ITA would be fixed at some amount, such as $4,000, which would cover the costs of training and provide some monies for relocation if needed.

At retirement, both worker and employer would be entitled to withdraw their contributions, plus tax-free accumulated interest. If the worker were displaced, however, the entire trust fund would become available, tax free, in the form of a G.I.-Bill type voucher for training and/or reimbursement of moving expenses. The choice and location of training would be left to the worker. Just as it did under the G.I. Bill, the federal government would create a process for certifying institutions eligible to offer displaced worker training.

Upon reemployment, the worker and the new employer would begin contributing to the displaced worker fund until the $4,000 limit was reached; such contributions would not be necessary if accumulated interest in the ITA were sufficient to reach the $4,000 threshold. If the worker were to leave a job voluntarily, the employer's contributions would be refunded.

An important feature of this approach is the built-in incentive for both workers and employers to use the funds wisely. Since the worker has equity in the ITA, the funds will be used more prudently than under a grant system or cash-out program.

A number of variations of the ITA concept are possible. Each has advantages and disadvantages.

One could be a modification of the existing regulations that define Individual Retirement Accounts. It would permit workers, perhaps with employer contributions, to establish a retraining/relocation IRA. All other provisions of the IRA would apply such as tax deductions and deferred payment on accummulated interest. The worker would be limited to the actual amount in the fund at the time of unemployment. Funds could be held in existing financial institutions exactly like IRA's are today. The approach could be voluntary or mandatory.

In another version, worker and employer contributions would be paid into a retraining/relocation insurance funds, much like a whole life insurance policy whereby coverage for retraining/relocation, up to some amount such as $4000, would be provided from day one. Part of the contributions would be for the insurance coverage and the balance would build up equity over time until no further contributions were required. In such an approach, the system would be financed by contributions from employers, from workers, and from the federal government through tax deductions for the ITA contributions. Upon retirement, both workers and employers would be refunded their unused contributions plus interest. This approach could be created either as a mandatory or a voluntary system. Funds could be held in either a third trust fund or perhaps in private financial institutions.

These are only a few of the versions that can be created that will meet all or most of the basic principles that should guide the creation of a new displaced worker retraining/relocation financing system.

These variations of the ITA concept share a number of positive features: contributions from business and workers (and the federal government if it participates) are shared and limited; workers have maximum flexibility in their choice of training and/or relocation; everyone concerned has built-in incentives to use the funds wisely; there are caps on contributions; each ITA is portable, remaining with the worker if he or she changes jobs; and unused contributions, plus interest, are returned to both employer and employee.

SUMMARY

Creation of a new financing mechanism with permanent solvency is an important step in meeting the needs of America's displaced worker assistance efforts are to be truly effective, however, other actions must be taken to improve existing programs. These include the provision of better labor-market information including the possible creation of a national jobs bank; the reduction of barriers to retraining; and quicker action to help the displaced.

For the displaced workers themselves, the benefits of comprehensive adjustment assistance will be immeasurable. And the gains to the economy in terms of expanded GNP, increased productivity and renewed competitiveness are certain to be substantial. Indeed, if the United States is to regain and maintain its competitive edge, the nation must act now to prepare its work force for the immense and unpredictable technological and economic challenges that lie ahead.

It is assuring to know that this Committee is giving this critical national issue the attention it merits.

Thank you.

Representative LUNGREN. Thank you, Mr. Choate, very much.

I think we will hold questions until after we have heard from the entire panel and then hopefully we can get some responses to some of the questions.

The next person we would like to receive testimony from is Lawrence Summers from Harvard University. Welcome, and you may proceed.

STATEMENT OF LAWRENCE H. SUMMERS, PROFESSOR OF ECONOMICS, DEPARTMENT OF ECONOMICS, HARVARD UNIVERSITY, CAMBRIDGE, MASS., AND RESEARCH ASSOCIATE, NATIONAL BUREAU OF ECONOMIC RESEARCH

Mr. SUMMERS. Thank you very much, Congressman. I am delighted to have this opportunity to testify before this committee on the very important problem of structural unemployment.

In my testimony today I want to discuss three questions. First, a sensible way to define for policy purposes what we mean by the structural unemployment problem; second, a diagnosis of the structural unemployment problem; and third, what we can do with policy to alleviate structural unemployment.

There are many possible definitions of the structural unemployment problem. The one I find most useful involves dividing unemployment into two categories—structural and cyclical unemployment.

By structural unemployment, we refer to the level of unemployment that will remain in the economy even after the economy has reached a cyclical peak. The unemployment, such as much of that that we are now suffering associated with recessions, with macroeconomic fluctuations, I refer to as cyclical unemployment.

At present and for several years, of course, cyclical unemployment will comprise a large fraction of our unemployment problem. The September unemployment rate is way down from the peak level of 10.8 percent in December, but it is still way above any forecast of unemployment after an economic recovery.

Most economic forecasts now suggest the economy will not have recovered fully until 1986 or 1987, and that when the economy does recover the unemployment rate will remain between 6 and 7 percent. It is this level of between 6 and 7 percent that I think of as being the structural unemployment rate that we should try to reduce with structural policies.

Now it is of course possible to reduce the unemployment rate below the 6- to 7-percent level with macroeconomic policies. Sufficiently expansionary monetary and fiscal policies will in the short run succeed in reducing the unemployment rate below the level at which I have spoken, but the consequence will almost certainly be accelerated inflation. Not just will the rate of inflation rise, but as the economy is stimulated more and more, shortages start to develop, inflation will actually accelerate.

A different but equivalent way of posing the problem of defining structural unemployment is to define the structural unemployment rate at a point in time as the level of unemployment at which the economy could operate at on a sustained basis without incurring excessive inflationary pressures. Again, the forecasts that the economy will recover at 6 or 7 percent reflect the conviction that given the current structure of the economy that is likely to be the best level we could achieve without causing excessive inflationary pressure.

Of course, calling it structural does not make it immutable, and I will talk about what we can do to change the structures in our economy so as to reduce unemployment in just a little while.

It is important to recognize, though, that structural unemployment is a natural concomitant to a dynamic economy with constantly changing patterns and demands. Labor markets are always in flux and people are entering and leaving the labor force, losing or quitting old jobs, and seeking and finding new employment opportunities. An economy without any structural unemployment would be so stagnantly rigid as to preclude economic growth.

However, it appears that current levels of structural unemployment are much greater than is necessary to permit the economy to take advantage of new opportunities. Structural unemployment could be reduced with prudent public policies which at the same time promote economic growth and help the least fortunate members of our society.

Let me turn to the second question that I posed, the diagnosis of our structural unemployment. Here, at the risk of slight oversimplification, let me distinguish two views: The new popular view and the more traditional view of the structural unemployment problem; and I shall suggest that the more traditional view of the structural unemployment problem is closer to correct.

In many circles it has become fashionable to think that we stand at the threshold of a new era of rapid structural change and employment dislocation. It is frequently claimed that the force of international competition will require a major restructuring of our economy. Similarly, it is argued that a rapid growth of high-technology industries will require massive efforts at worker retraining.

A particularly visible group of the unemployed in recent months has been comprised of dislocated workers with permanently lost jobs due to plant closings. This group is held to be the tip of what will be a growing iceberg in months to come.

I want to suggest, however, that in large part the current obsession with these types of events reflect a fundamental confusion of cyclical and structural developments.

The primary reason for the apparently critical labor market problems we have suffered during the last few years is a sharp decline in output associated with the recent recession. This point is superbly documented in a recent study by Robert Lawrence done at the New York Federal Reserve Bank entitled "Is Trade Deindustrializing America?"

I found the conclusions so surprising that I went back and tried to check his analysis at several points. At each point I found myself agreeing. He reaches several striking conclusions.

First, U.S. manufacturing has fared no worse recently than would be expected on the basis of the performance of overall GNP. In fact, it led the world in rate of growth of employment during the 1970's. Second, as measured by the dispersion of industrial or regional growth rates, there has not been a substantial acceleration in structural change during the last decade. Third, until the very recent period when the exchange rate was way above its longrun equilibrium level, trade increased employment, as new exports created more jobs than were lost to import penetration. Lawrence's findings are substantiated by the CBO's conclusion that less than 0.5 percent of our current unemployment rate can be attributed to long-term unemployed in industries thought to be adversely affected by international trade.

If we are to usefully address the structural unemployment problem, we must not confuse these developments associated with the recession with the longer run developments associated with economic growth. Rather, I want to emphasize two fundamental facts that have been true about the structurally unemployed for many years and will continue to be true, I believe, unless we take policy actions.

First, a very high fraction of the structurally unemployed are young people. Data from the year 1978 when the economy was operating near a cyclical peak provides an indication of the characteristics of structural unemployment. In that year, 49 percent of the unemployed were under the age of 24, while more than a quarter of the unemployed were teenagers. These figures understate the significance of the youth labor market problem because they take no account of the many young people who grow discouraged and withdraw from the labor force. In fact, about two-thirds of young people who become unemployed actually do not take jobs but, rather, end their spell of unemployment by withdrawing from the labor force.

Second, most unemployment is due to very long spells. On average, in 1978, a year when the economy was operating at or beyond full employment, persons out of work at that point in time were unemployed for a total of more than 6 months before finding a job. Moreover, even among adult males, more than one-quarter of all unemployment spells ended in labor force withdrawal. The average person who was out of work at that point in time during the year suffered more than 7½ months of unemployment total during the year 1978. So when unemployment struck, it struck people for protracted periods.

What can be done? The beginning of wisdom on this subject is to recognize that it is very difficult to usefully combat structural unemployment and it is appropriate to be modest in setting goals. The lesson of the last two decades is that it is much easier to spend money than to deliver results. We have invested vast amounts of money in Federal training and job-matching programs to relatively little effect. While there are evaluation studies that suggest that some training programs have worked, there are at least an equal number of documented failures. Moreover, even those programs that are measured in our evaluations as succeeding may only do so by reallocating a fixed stock of jobs from the individuals who are in the training program away from the individuals who were not in the training program.

A similar point, of course, applies to Federal efforts to better match workers and jobs through the employment service. Without increasing the supply of jobs, no amount of assistance to workers can reduce unemployment.

Therefore, the appropriate objective of new Federal initiatives directed at employment should be to stimulate private sector job creation.

Let me talk first about the youth area and then I will say something about the problems of long-term unemployed adults.

The Federal Government has already taken important steps toward reducing youth unemployment through the targeted jobs tax credit program. This measure provides for a 2-year tax credit of up to $4,500 for employers hiring disadvantaged youth and certain other disadvantaged workers. This past summer, economically disadvantaged young people looking for work during summer vacation were eligible for subsidy at an 85-percent rate. This reduced the employers' cost of labor for most such teenagers below 50 cents an hour. Despite the apparent attractiveness of the targeted job tax credit, participation to date has been very limited. Many employers, evidence suggests, do not even bother to claim the tax credit for workers already on their payroll, let alone hire new workers to take advantage of the credit. Reasons for this behavior are far from clear. In part, it reflects the fact that businesses take time to adapt to changes in tax rules. A study by none other than Norman Ture concluded that when accelerated depreciation was first introduced into the tax code in 1954, most firms took several years before taking advantage of the accelerated writeoff provisions, although they could have reduced their taxes substantially by doing so.

An additional reason for the nonuse of the targeted jobs tax credit program is that it is poorly administered. Covered workers, in order for their employers to receive credit, must be certified as disadvantaged by the employment service. Local employment services, however, are evaluated and have their funding levels set by quantitative criteria in which the targeted jobs tax credit certifications receive zero weight in the formula. It is therefore not surprising that they make certification of workers a low priority activity.

Administrative attention and the passage of time should lead to more widespread use of the targeted jobs tax credit. A further step that should be considered is broadening the program's eligibility. This would increase the stimulus to employment and would mitigate the stigmatizing effect of the program on current beneficiaries. A broadened TJTC might also induce employers to provide young people with high quality jobs that had more potential for upward mobility. Of course, a significant extension of the program would be costly so its benefits would have to be weighed carefully.

A standard recommendation for easing the teenage unemployment problem is legislation to mitigate the effects of minimum wage laws on employers' incentive to hire young workers. Other proposals that would move in the right direction include the youth subminimum wage and a broadening of the current exemption for learners. Beyond these measures, it is not at all clear that Government can do a great deal to reduce youth unemployment. There is very little evidence that either make-work public jobs or training programs are very efficacious.

This brings us to the problem of structural unemployment among adults. As I already emphasized, the fundamental problem here is doing something for the long-term unemployed, who account for most problem unemployment. I believe that something can be done for this group through appropriate reform of the unemployment insurance system. We seldom pause to reflect that total expenditures on unemployment insurance, which are devoted to mitigating the pain of unemployment but not to prevent it and which may actually increase unemployment by reducing the economic costs it imposes on workers, dwarf total expenditures directed at promoting unemployment. In fact, we spend much more promoting unemployment through unemployment insurance than we do reducing unemployment through all of our direct expenditure programs. Of course, in the midst of a period of high unemployment such as the present, it would almost surely be unacceptable to promote incentive by slashing benefits. However, it should be possible to promote incentives by adding employment subsidy option to the current unemployment insurance system.

Such an option might, for example, permit workers who had been out of work for some fixed period—I would suggest 6 months as a natural benchmark but that is not crucial—to use their remaining unemployment insurance benefits to subsidize a job for themselves. This would be done as follows. Instead of picking up their check at the unemployment insurance office, workers could pick up vouchers which could be turned into potential employers. Employers could then use the vouchers to claim a credit against their payroll taxes equal to half of the worker's weekly benefit. Workers, since each voucher is going to cost only half the weekly benefit, would get 2 weeks vouchers for each remaining week of unemployment benefits.

Firms, workers and the Government might all benefit from the existence of a system of this type. Firms would find that they had a lower marginal cost of hiring labor and would hire more people and produce more output. Workers could not be made worse off by the proposal since the option of claiming regular benefits would remain. Many would find employers much more willing to bear the inevitable startup costs associated with a new worker and the risks associated with hiring someone who has been out of work for a long time if a subsidy were available for the first few months. Taxpayers might benefit as well. Revenues could be rechanneled from subsidizing unemployment to encouraging employment, thus enlarging the tax base and increasing ultimate tax collection.

A subsidy option of this kind would be a particularly desirable feature to add to the FSC, Federal supplemental compensation program. Because this program applies only to the very long-term unemployed, very little money would be spent on persons who would find jobs anyway. Most people who get on Federal supplemental compensation do not leave the program by finding jobs or withdrawing from the labor force, but leave the program by exhausting their benefits. Because FSC is a temporary program, the employment subsidy option could be regarded as an experiment and phased out when FSC goes out of business if the program did not prove successful.

In addition, the federalism issues which plague many types of UI reform would not be a serious problem because of the Federal character of the Federal supplemental compensation program. It is not possible to reliably estimate how much employment would be increased by a measure such as the one I have described here. Of course, to the extent that people do not take advantage of the program and is therefore not successful in stimulating employment, we will not have spent excessive amounts of revenue.

In conclusion then, as the economy recovers, and cyclical unemployment diminishes, structural unemployment will again come to the fore. The problems of structural unemployment cannot be traced primarily to the devils of international competition or technology.

Rather, it is traceable to the labor market problems of a small group, disproportionately young, in our population who tend to suffer repeated protracted spells of unemployment. The group cannot be helped by training them or helping them search for jobs that do not exist. Rather, targeted subsidies directed toward providing jobs for these people, carefully designed to minimize displacement, provide the best chance of reducing structural unemployment.

A particularly attractive vehicle is reform of the unemployment insurance system to make it an employment promoting system as well.

Thank you. Congressman Lungren.

[The prepared statement of Mr. Summers follows:]

Prepared Statement of Lawrence H. Summers

Mr. Chairman and members of this distinguished subcommittee, I am delighted to have this opportunity to testify on the serious problem of structural unemployment. My name is Lawrence Summers and I am currently a Professor of Economics at Harvard University and a Research Associate of the National Bureau of Economic Research. For some time, my research interests have focused on the problem of unemployment. In my testimony today, I want to first, discuss the definition and measurement of structural unemployment, second, to attempt a diagnosis of the problem, and third to suggest some possible solutions.

Defining Structural Unemployment

At the outset, it is important to define what we mean by structural unemployment. I would define structural unemployment, as the unemployment that will remain even after the economy recovers fully from the recent recession. The level of structural unemployment is the lowest level of unemployment which is compatible with non-accelerating inflation. The remaining unemployment which is associated with macroeconomic fluctuations, I shall label cyclical unemployment. At present, and for the next several years, cyclical unemployment is a large fraction of our unemployment problem. The September unemployment rate stood at 9.4 percent, down from a peak of 10.8 percent in December. Most economic forecasts suggest that the economy will not have fully recovered until 1987, when the unemployment rate will be between 6 and 7 percent. This residual unemployment which will endure even after the economy recovers represents the structural unemployment problem.

Any economist testifying before you should be willing to acknowledge the uncertainty surrounding any estimate of the extent of structural unemployment. It is certainly possible that the economy can be stimulated enough to reduce the unemployment rate below six percent without causing excessive inflationary pressures. Such pressures might start to become unacceptable even before the unemployment rate declined to 7.0 percent, particularly if the economy was growing sufficiently rapidly. Nonetheless, it is the best judgment of experts in the area that the level of structural unemployment in the American economy today is between six and seven percent.

In large part, structural unemployment is a concomitant of a dynamic economy with constantly changing patterns of demand. Labor markets are always in flux with people entering and leaving the labor force, losing or quitting old jobs, and seeking and finding new employment opportunities. An economy without any structural unemployment would be so stagnant and rigid as to preclude significant economic growth. However, it appears that current levels of structural unemployment are much greater than is necessary to permit the economy to take advantage of new opportunities. Structural unemployment could be reduced by prudent public policies which would at the same time promote economic growth, and help the least fortunate members of our society.

The rest of this testimony is directed at the structural unemployment problem. I want however to emphasize that the impact of any conceivable set of structural policies is dwarfed by the impact of macroeconomic policies. Expansion in the economy is the most potent known solution to structural problems. In a recent study Kim Clark and I estimated that each one percent decline in unemployment for adult men is associated with more than a four percent increase in the employment of teenagers and more than a two percent increase in the employment of Black adult males. The data tend to suggest that the more disdvantaged a group is in the labor market, the greater is the burden it bears during economic downturns.

Why given these facts is it sensible to devote much attention to structural policies? The main reason is that the inflation problem inherently limits our ability to rely on expansionary policies. As recent experience has taught us, the legacy of an overheated economy is inflation and subsequent recession. Macroeconomic policy given our current state of knowledge must remain a tightrope operation, as we try to minimize output and employment, while avoiding accelerating inflation. Structural policy can make a positive contribution by permitting reductions in the unemployment rate without accumulating inflationary pressures.

Diagnosing Our Structural Unemployment Problem

Before discussing policies directed at reducing structural unemployment, it is necessary to describe more fully the nature of the structural unemployment problem. In many circles it has become fashionable to think that we stand at the threshold of a new era of rapid structural change and employment dislocation. It is frequently claimed that the force of international competition will require a major restructuring of our economy. Similarly it is argued that the rapid growth of high technology industries will require massive efforts at worker retraining. A particularly visible group of the unemployed in recent months has been comprised of dislocated workers with permanently lost jobs due to plant closings.

Inevitably, in a dynamic economy jobs will be lost as plants close, and retraining of some workers will be necessary as new industries emerge. But I believe that the current obsession with these types of events reflects a fundamental confusion of cyclical and structural developments.

The primary reason for the apparently critical labor market problems we have suffered during the last few years is the sharp decline in output, and increase in interest and exchange rates caused by macroeconomic developments. This point is superbly documented in a recent study by Robert Lawrence done at the New York Federal Reserve Bank entitled "Is Trade Deindustrializing America?". Lawrence reaches several striking conclusions. First, US manufacturing has fared no worse recently than would be expected on the basis of the performance of overall GNP. It led the world in rate of employment growth during the 1970's. Second, as measured by the dispension of industrial or regional growth rates, there has not been a substantial acceleration in structural change during the last decade. Third, until the very recent period when the exchange rate was way above its long-run equilibrium level, trade increased employment, as new exports created more jobs than were lost to import penetration. Lawrence's findings are substantiated by the CBO's conclusion that much less than .5 percentage points of our current unemployment rate can be attributed to displaced workers, defined as those workers in rapidly declining industries who have been out of work for more than six months.

The simple fact is that structural problems are a consequence not a cause of our recent poor economic performance. The combination of unprecedentedly tight monetary and loose fiscal policy has resulted in our exchange rate rising something like 25 percent above its long run equilibrium level.

This has the same effect as would a 25 percent export subsidy and import duty imposed by all our foreign competitors. The mix of macroeconomic policies has also led to extraordinarily high real interest rates. These rates tend to choke off investment and durable goods purchases. There is simply no evidence that if our macroeconomic policy mix is improved any extensive new structural problems will remain.

If we are to usefully address the structural unemployment problem, we must comprehend its true nature. The problem is much too long-standing to be traceable to very recent developments. Rather I want to emphasize two fundamental facts about those structurally unemployed.

First, a very high fraction of the structurally unemployed are young people. Data from the year 1978 when the economy was operating near a cyclical peak provides an indication of the characteristics of structural unemployment. During 1978 49 percent of the unemployed were under the age of 24 while more than a quarter of the unemployed were young people. These figures understate the significance of youth labor market problems because they take no account of the many young people who grew discouraged and withdraw from the labor force. Almost two thirds of young people who become unemployed end their unemployment experience by withdrawing from the labor force rather than taking a job. A very large fraction of teenagers are neither working, looking for work or in school. The problems of this group are likely to be at least as severe as the problems of those measured as unemployed. The labor market problems of Black youth are especially severe. The Black male teenage unemployment rate reached 44 percent in 1982. Only about one-third of Black male teenagers, who had left school, were employed at the end of 1982. The remainder had either become unemployed or stopped looking for work and left the labor force.

Many young people who are unemployed find jobs quickly. However, this fortunate group accounts for relatively little of the total youth unemployment problem. Indeed, more than half of all the unemployment experienced by teenage males aged 16 to 19 in 1981 was attributable to the 4.4 percent of the population who were out of work for more than six months.

The second important fact to recognize about structural unemployment is that most unemployment is due to very long spells. Even in good times, most of the unemployed remain without jobs for long periods of time. Less than 10 percent are on temporary layoff from a job, to which they can expect to return. On average in 1978 persons out of work at any point in time were unemployed for a total of more than 6 months before finding new jobs. The large group of workers who find jobs quickly accounts for relatively little unemployment and does not require public policy assistance. Moreover even among adult men, more than one quarter of all unemployment spells end in labor force withdrawal. There is also a great deal of evidence that unemployment tends to be persistent, with a small fraction of the population suffering repeated, protracted spells of joblessness.

What Can be Done?

The design of policies to combat structural unemployment is very difficult and it is appropriate to be modest in setting goals. The lesson of the last two decades is that it is much easier to spend money than to deliver results. We have invested vast amounts of money in Federal training and job matching programs to relatively little effect. While there are evaluation studies that suggest that some training programs have worked, there are at least an equal number of documented failures. Moreover, even those programs that "succeed" may only do so by reallocating jobs towards trainees without increasing overall employment. A similar point applies to Federal job matching programs such as those carried out by the Employment Service. Without increasing the supply of jobs, no amount of assistance to workers can reduce unemployment. Therefore the appropriate objective of new Federal employment initiatives should be to stimulate private sector job creation.

This point deserves emphasis. A few years ago we embraced the notion that investments in physical capital could bring about miraculous increases in economic growth. Those supply side promises have not been realized. It would be a mistake to embrace human capital investment as an easy solution to our economic woes. It is difficult to find evidence that lack of training or retraining has caused our structural problems. I have already noted the relative ineffectiveness of most public training programs. The unemployment rates of more heavily educated workers have risen sharply relative to those of less well educated workers. It is much more difficult to measure the efficacy of on-the-job training. But, it may be best promoted indirectly by increasing employment. Certainly without increasing employment, no training program can have much ultimate effect on joblessness.

Reducing Youth Unemployment

The Federal government has already taken important steps towards reducing youth unemployment through the Targeted Jobs Tax Credit Program. This measure provides for a two year tax credit of up to $4,500 for employers hiring disadvantaged youth and certain other disadvantaged workers. This past summer economically disadvantaged young people looking for work during summer vacation were subsidized at an 85 percent rate. This reduced the employers' cost of labor below fifty cents an hour for many young people.

Despite the apparent attractiveness of the TJTC, participation has been limited. Many employers do not even bother to claim the tax credit for workers already on their payroll. The reasons for this behavior are not clear. In part, it reflects the fact that businesses take time to adapt to changes in tax rules. Norman Ture in a study done many years ago found that as late as 1960, only one-third of American corporations were taking advantage of the accelerated depreciation rules enacted in 1954. The available information also suggests that the TJTC is poorly administered. Covered workers must be certified as disadvantaged by the Employment Service. Local Employment Service offices are evaluated and have their funding levels set by quantitative criteria with TJTC certifications receiving zero weight in the formula. It is therefore not surprising that they make certification of workers a low priority activity.

Administrative attention and the passage of time should lead to more widespread use of the TJTC. A further step that should be considered is broadening the program's eligibility.

In particular, consideration should be given to extending the program to cover all young people who have been out of work for more than six months, or who live in very depressed economic areas. This would increase the stimulus to employment and would mitigate the stigmatizing effect of the program on current beneficiaries. A broadened TJTC might also induce employers to provide young people with high quality jobs that had more potential for upward mobility. Of course, a significant extension of the program would be costly so its benefits would have to be weighed carefully.

At a minimum administrative costs imposed on employers could be reduced by allowing employers to certify workers themselves, subject to periodic audits by the Employment Service. At worst, this would allow some non-qualifying young people to enjoy subsidized jobs. It certainly would avoid the delays and hassles which have led many firms to shy away from making use of the TJTC.

Reducing Adult Unemployment

This brings us to the problem of structural unemployment among adults. As I already emphasized, the fundamental problem here is doing something for the long term unemployed, who account for most problem unemployment. I believe that something can be done for this group through appropriate reform of the Unemployment Insurance system. We seldom pause to reflect that total expenditures on unemployment insurance, which are devoted to mitigating the pain of unemployment, dwarf expenditures on all the many programs directed at promoting employment and reducing unemployment. In fact, unemployment insurance by making unemployment less costly, may actually promote unemployment for some people. Of course in the midst of a period of high unemployment such as the present, it would surely be unacceptable to promote incentives by slashing benefits. However it is possible to promote incentives by adding an employment subsidy option to the current UI system.

An employment subsidy option would permit workers who had been out of work for some fixed period, perhaps three or six months, to use their remaining unemployment insurance benefits to subsidize a job for themselves. This would be done as follows. Instead of picking up their check at the UI office, workers could pick up vouchers, which could be turned in to potential employers. Employers could then use the vouchers to claim a credit against their payroll taxes equal to half of the worker's benefit. Workers could get two weeks worth of vouchers for each remaining week of unemployment benefits.

Firms, workers, and taxpayers would all benefit from a system of this type. Firms would find that they had a lower marginal cost of hiring labor and would hire more people, and produce more output. Workers could not be made worse off by the proposal since the option of claiming regular benefits would remain. Many would find employers more willing to bear the inevitable start up costs associated with a new worker when a subsidy was available. Taxpayers would benefit as well. Revenues would be rechanneled from subsidizing unemployment, to subsidizing employment, thus enlarging the tax base.

A subsidy option would be a particularly desirable feature to add to the Federal Supplemental Compensation program. Because this program applies only to the very long term unemployed, there would be relatively little subsidy money wasted on persons who would have gotten jobs anyway. Because FSC is a temporary program, the employment subsidy option could be regarded as an experiment. In addition, federalism issues would not arise because of the Federal character of the FSC program. Unemployed workers could certify themselves, so the program would involve minimal administrative burdens. It is not possible to reliably estimate how much employment would be increased by a measure such as the one described here. Of course to the extent that people do not take advantage of the subsidy option, costs would be very low.

Conclusions

As the economy recovers, structural unemployment problems will again come to the fore. The problems cannot be traced to either international or technological developments. Rather, they are tracable to a small minority of the population who consistently have difficulty finding work. This group cannot be helped by training them or helping them search for jobs that do not exist. Rather targeted subsidies directed at creating private sector jobs for these individuals offer the best chance of reducing structural unemployment. Adding an employment subsidy option to UI would be one desirable way of providing these subsidies.

Representative Lungren. Thank you very much.

Our next witness and member of the panel is John Bishop, director of the research division of the National Center for Research in Vocational Education at Ohio State University.

STATEMENT OF JOHN H. BISHOP, DIRECTOR, RESEARCH DIVISION, THE NATIONAL CENTER FOR RESEARCH IN VOCATIONAL EDUCATION, OHIO STATE UNIVERSITY, COLUMBUS, OHIO

Mr. Bishop. Thank you. I appreciate this opportunity to contribute to your committee's deliberations on the training needs of the structurally unemployed. I agree entirely with Larry's definition of the objectives of reducing the unemployment rate to the point at which inflation starts to accelerate and I agree with his assessment of where the problem is located. It is located predominantly among young people and among young people from disadvantaged backgrounds.

I want to point to six reasons for the increasing level of structural unemployment that has occurred in the last couple of decades. These do not, however, exclude some of the other kinds of reasons such as unemployment insurance or minimum wage.

There has been a huge increase in the supply of inexperienced and unskilled workers in this economy and that has shifted downward the wage rates of those workers and also made it more difficult for them to find jobs.

Second, there has been a decline in the employability of young people entering the labor market for the first time. The SAT scores are just one example of an indicator of those problems. An increase in drug dependence and other types of problems exist as well.

Third, firms and employees are underinvesting in on-the-job training. Most on-the-job training, especially of young people, is general in character, and yet when we look at the way it is paid for and its benefits that occur in the companies that we have been interviewing, it indicates that employers are paying for a big share of the general training that young workers or new workers, new employees receive.

An employer, of course, will not be interested in training people for some other firm's employment, and so they take into account the fact that they are going to lose many of the people they train and, as a result, they underinvest in training. Much of the benefits of the training one firm provides goes to other employers or to the worker or to the society generally through higher taxes that the worker pays. This is a fundamental problem that we have in the economy. We attempt to handle the externalities created by education and training in schools through subsidizing schools and we currently subsidize education and training through programs like JTPA very heavily. There is currently no subsidy or public encouragement of training by employers. And the discrepancy between social and private rates of return, private being the employer's rate of return to investment in on-the-job training of his workers, is even greater in tight labor markets than in loose labor markets because quit rates of these trained workers go up and so the proportion of the trained workers that employer can expect to see benefits from in terms of higher productivity some time in the future goes down.

Fourth, there have been shifts in demand produced by international competition that have caused shifts in the types of skills that are needed in the economy and created new skills. There is a need for additional training. However, much of that training should be of people who currently have jobs and much of needs to be in small packages that respond to the introduction of a new piece of equipment or something like that on the job. It does not necessarily require and often should not involve the individual leaving the company and going to a vocational training institution or school to get training.

The vocational training institutions are attempting to respond to the skill needs of the economy but they just are not able, both because they are in the wrong place at the wrong time, they cannot respond fast enough, for a variety of reasons—are not able to meet the entire Nation's needs for training of workers as time passes.

This training problem is partly responsible for the fact that it is now thought that if unemployment gets to the 6- or 7-percent level inflation will accelerate again.

One of the ways that demand pressure gets transmitted in the labor market is through shortages in specific skills resulting in wages being bid up in those particular occupations. Often those wage increases are transmitted to other jobs within the same firm that may not be in shortage, and the result is accelerating wage increases and inflation.

There are two types of responses that are required to these problems. One is an improvement in the quality of school-provided education and training. There is a national debate underway on this issue right now. What we are focusing on today, however, is issues related to tax credits and subsidy schemes for inducing employers to change their behavior.

Another great need is for an increase in the quantity of on-the-job training provided by employers. Our estimates are that currently employers are investing at least 5 percent of their wage bill in informal training, and that the informal part of training is by far the majority of all on-the-job training costs. On-the-job training is as large an area of training as all of the schools put together.

My argument can be summarized in six main points.

One, on-the-job training yields high social rates of return. Many of these benefits accrue to people other than the individuals involved in the training decision, to other employers in the society. Private employers and their workers are underinvesting in on-the-job training. The Government should attempt to encourage it. However, that is not easy. The reason is because on-the-job training and production occur simultaneously and it is not easy to design a mechanism distinguishing one from the other and encouraging on-the-job training but not subsidizing production. Subsidizing the marginal cost of production is not necessarily a bad idea; it is not the major objective.

Finally, there are a lot of practical problems in designing schemes to encourage the employment and training of the disadvantaged and the structurally unemployed. They relate to, first, getting employers interested in the program and getting them to participate, and second to design the program in a way that does not pay them for activities they would have engaged in anyway.

I will review quickly our experience with the TJTC and other similar programs. The TJTC is a partial success. It has rather a very low participation rate, probably less than 10 percent of eligible people who are employed, are claimed as a credit.

Originally, ignorance was a major part of the problem wtih the program. Two years after the beginning of the program only 17 or 20 percent of employers said they knew of the program. Now, however, 80 percent have heard of it and 50 percent have spoken to someone in a Government agency or business organization about it, and yet certifications are still running at only 300,000 people a year.

I think the major problems with the program that prevent it from becoming a really big success and really making a big dent in our structural unemployment problem is that the eligibility rules are very complicated and difficult for employers to implement on their own. They typically do not know whether a job applicant is a welfare recipient or from a low-income family and probably are reluctant to ask. Most job seekers are, wisely, not volunteering the information. Employers fear interference from Government if they participate in programs like this. The primary way in which the program can work requires cooperation between the employment service, or some other labor market intermediary and the business. Most employers do not trust these organizations.

For example, only 30 percent of firms with vacancies have listed tnat vacancy with the employment service. Only 5 percent of all jobs that are found in the economy are found through the employment service. This makes it difficult for the labor market intermediaries to make the connection because it is the major institution that is designed to help that.

There certainly are great improvements that can be made in the administration of TJTC, but I think it suffers from inherent limitations that relate to the stigma attached to most of the target groups.

There have been two experiments in which eligible people for the TJTC have been trained to use the fact of their eligibility as a selling point in their spiel when they look for work and in both cases the people who were assigned to this training program were less likely to find employment than people who were also eligible but were not trained to mention TJTC.

It is the opinion of most of the professionals who advise people in jobs programs that it is not a good idea to advertise the fact that you have these characteristics. Most people who have these characteristics get their jobs not telling their prospective employer about it.

Having job seekers announce that "I am on sale today; why do you not hire me," does not seem to have worked too well. Some employers, however, have discovered that job seekers who have these characteristics and are eligible for TJTC, turn out to be fine employees. The problem is really a matter of perception and bias, because in fact so many of these people have jobs and employers do not realize that they are from low-income families. They think if the Government is subsidizing them they must be terrible.

Some employers have taken this program and are running with it and doing a good job with it. However, these beliefs limit the ability of the program to make a major dent in the structural unemployment. It certainly helps, however, and it is not a program that should be eliminated.

An alternative would be a scheme like the investment tax credit and accelerated depreciation rule which are designed to encourage firms to invest more in plant and equipment or the New Jobs Tax Credit which was designed to get employers to hire more people and expand total employment. In such a scheme you define the behavior you want more of and then you subsidize that behavior.

In contrast to the TJTC which may have a 3- or 4-percent participation rate, the New Jobs Tax Credit had over 50 percent eligible employers participating. Perloff and Wachter's study of the program found it increased employment at the firms that participated by an average of about 10 or 11 percent and that could be blown up to come out of 700,000 jobs in the economy as a whole if there were no displacement effects.

There are six lessons to be derived from our experience with targeted and non-targeted subsidy schemes.

If the program is to have a large impact on structural unemployment, six things must occur: Employers must be able to simply certify their own eligibility. The behavioral response desired of employers must be obvious and simple for them to implement. All or almost all employers must be eligible. Otherwise, we simply redistribute who employs who? Targeting is essential but it is more important to include all workers in need of help than to exclude workers that do not need the help. The target group should be defined by a nonstigmatizing criteria that is visible to the employer—a characteristic of the job if it is sufficiently well-targeted is better than a characteristic of the worker. Finally it is desirable that the program be marginal to reduce costs.

In my written testimony, I discuss six specific proposals. One of the proposals I discuss is the French mandate to spend on training. Your committee has received testimony about the French mandate to spend on training at other hearings so I will not give you a description here. It has the good feature of defining an aggregate training expenditure and taxing the firm if it doesn't spend some target percentage of its wage bill on training.

What I would propose is an American version or alternative to the French mandate to spend. It would define a training expenditure aggregate for each firm and subsidize a portion of the difference between the amount spent and some threshold level which is related to the size of the firm and the number of new employees the firm has.

Firms would face a 10-percent or 20-percent tax credit or subsidy of increases in expenditure on training. Like the investment tax credit, it would let the firm decide how to spend its training money. The aggregate that would be subsidized would include the costs of formal training and some of the costs of informal training. Informal training should be included for two reasons. First, formal training is efficient only when done at some minimum scale. In small firms informal training is the more efficient form of training. A scheme that subsidized only formal training would be biased against small firms and establishments.

Second, since there is no evidence that formal training is better than informal training, both should be encouraged and firms should not be induced to substitute formal training for informal training.

An alternative approach to the problem involves selecting skills that are in shortage and then rewarding firms that train people for those skills. Such a scheme is much less costly than the first one. However, it requires that Government be wise enough to pick the skills correctly.

There would need to be a sunset provision. No skill could be subsidized for more than 3 years and there would have to be renewals every year.

Selecting which skills would be subsidized is not easy and I am not sure that the Government could be trusted to do it wisely, but the same problem exists when Government selects which training program to offer in JTPA or which classes to offer in a junior college. If Government is to be involved in training it is hard to see how hard choices are to be avoided.

The final type of program attacks the problem somewhat differently. It says, instead of attempting to change unskilled people into skilled people—my assessment of the problem is fundamentally that the economy has too many unskilled people or inappropriately skilled people and an insufficient number of people with appropriate skills.

The two proposals just described attempt to increase the number of people with needed skills. An alternative approach is to shift demand toward people without skill. A scheme like the new jobs tax credit has that effect.

An NJTC scheme involves defining a threshold, say total hours worked at the firm in 1983, and offering a subsidy or tax credit of 50 cents or $1 per hour for every extra hour worked over that threshold in 1984. A similar payment would be made if hours worked in 1985 was greater than in 1984.

There is some evidence, though, that such a subsidy encourages employers to raise wage rates. This is undesirable because it may accelerate inflation which in turn would induce the Federal Reserve to slow the growth of the money supply and create another recession.

One way to reduce the incentive to increase wages would be to give the scheme the character of a TIP, tax incentive based incomes policy. If a firm raised its wages by more than a threshold amount, say 5 percent, the size of its subsidy would be reduced.

Those are a class of schemes that I think have the opportunity to have major effects upon the level of structural unemployment in the economy. I thank you very much for the time.

[The prepared statement of Mr. Bishop follows:]

PREPARED STATEMENT OF JOHN H. BISHOP

I appreciate this opportunity to contribute to your committee's deliberations on the training needs of the structurally unemployed and alternative mechanisms for reducing structural unemployment. I am Dr. John Bishop director of the Research Division of the National Center for Research in Vocational Education located at Ohio State University. The research that I will be reporting on has been funded at various times by the National Institute of Education, the Department of Labor, the Department of Health and Human Services, the Small Business Administration and the Upjohn Institute. And I want to thank these agencies for their support. The testimony I will give does not reflect the results of a specific government funded study nor does it reflect the position of the organization that employs me. Rather it is the accumulated wisdom of over ten years of studying and thinking about the role of training in reducing structural unemployment.

I. THE DIAGNOSIS

The United States and the rest of the industrialized West is finding it increasingly difficult to reconcile the twin objectives of low rates of inflation and low rates of unemployment. Monetary and fiscal policy seems to be unable to reduce unemployment below unacceptably high levels without producing shortages in certain high skill occupations and accelerating an already unacceptably high rate of inflation. Structural unemployment is the recurrent or long duration involuntary joblessness that remains when the national unemployment rate has been gotten as low as is possible without causing an acceleration of inflation.

It is considerably higher now than it was twenty years ago. Why is this the case? Let me suggest six reasons.

1. There has been a huge increase in the supply of inexperienced and unskilled workers. This has been due to the baby boom, the increased labor force participation of women and teenagers and large flows of undocumented workers into the country. The rapid increase in the supply of unskilled workers has forced relative wage rates for unskilled jobs down and increased the proportion of this group that are unable to find a job (Freeman, 1979).
2. Young people entering the labor market for the first time are less employable than a few decades ago. Employers report a deterioration of work attitudes, work habits and basic skills. Average scores on SAT tests have declined 30 points since 1970. Other countries do not seem to be experiencing a similar decline. The IEA math exam which served as the basis for international rankings in performance reported in the Nation at Risk report has now been administered twice in three countries: Sweden, Australia and Japan. The scores of Swedish youth on this test did not change significantly between 1964 and 1980. In Australia and Japan the average performance of 17 year old secondary school students rose appreciably. This occured in the face of significant increases in the proportion of all 17 year olds who were attending school.
3. Firms and their employees are underinvesting in on-the-job training. While on-the-job training has both specific and general components, our research indicates that most of what is learned is useful in at least some other firms.[1] The employer seems to pay for almost all of the costs of specific training and an important share of the costs of general training.[2] The firm benefits from the investment (through productivity that is higher than the wage) after the training period is completed. Many employees leave before the firm has recouped its investment, however. The loss of trained employees causes the private return to OJT investment to be considerably below the social return and results in underinvestment in OJT.[3] The discrepancy between private and social returns to OJT is particularly high when labor markets are tight and one's competitors are

experiencing shortages of skilled workers as well. Obtaining needed skilled workers by raiding other firms may be optimal from the firm's point of view, but it has the unfortunate effect of reducing everyone elses incentive to provide training and this exacerbates the shortage.

4. Shifts in demand produced by international competition, technological change and the defense build up have reduced the value of certain skills, raised the value of others, and created a need for completely new skills. Many of the skills of the experienced workers permanently laid off by auto, steel and other smoke stack industries have little market value outside those industries.

5. Vocational training institutions are attempting to establish training programs in the shortage fields, but are unable to fully meet the need for skills training because (1) many of the skills are specific to particular very expensive pieces of machinery, (2) many of the skills are so new that the institutions have not had time to respond, (3) many of the institutions are unable to pay the salaries that would attract the teachers and experienced skilled craftsmen needed, (4) some skills are better learned on a shop floor than in a classroom or a school-provided workshop, and (5) many of the shortages appear and then disappear before the institution responds.

6. Whenever unemployment has dropped to about six percent, shortages have appeared for many types of skilled workers. Rather than training the workers needed internally, many firms recruit already trained workers from other firms by offering higher wages. Because many firms have formal wage structures that make it difficult to arrange premium pay for just one or two jobs, the wage inflation generated by these shortages is not limited to the occupations that are in shortage. The wage increases that these shortages generate are a reflection of the high marginal costs of expanding by training your own workers when many of those trained will not stay with the firm. The resulting price inflation may induce the Federal Reserve to slow the growth of the money supply, drive up interest rates and abort the recovery.

What does this diagnosis of the problem imply about priorities for reform of the nation's education and training system? In my view priority should be given to increasing:

The Quality of School Provided Education and Training

and

The Quantity of Employer Provided On-the-job Training

A national debate is now underway on how to accomplish the first of these priorities. We have a great deal of research underway on how the first objective may best be achieved. Since the work is not completed however, it would be premature for me to participate in the debate. Our research on the use of tax credits, vouchers and subsidies to induce employers to hire and train the structurally unemployed is much further along. It is policy implications of this work that I would like to share with the committee.

The main points of the argument can be summarized as follows.

- On-the-job training yields extremely high social rates of return. Many of the benefits do not accrue to either the trainee or the employer who provides the training, rather they occrue to other employers and society.
- Private employers and their workers underinvest in this type of training.
- Government should attempt to promote this form of training.
- Because OJT and production often occur simultaneously, the major task of designing a mechanism for subsidizing OJT is developing a practical way of defining the training activity or outcomes we wish to promote.
- The second major problem that must be solved is making the scheme attractive enough to employers so that they participate while at the same time minimizing the extent to which the scheme subsidizes training investments which would have been undertaken even without the subsidy.

Section II of the paper reviews the history of governmental attempts to induce private employers to hire and train the disadvantaged through various forms of subsidy. In Section III of the paper six specific proposals for dealing with the problem of structural unemployment are described and evaluated. The proposals are the following:

- Individual Training Accounts
- Re-Employment Vouchers
- French Mandate to Spend
- Marginal Training Subsidy
- Critical Skills Training Incentive
- Subsidy of Increases in Employment

II. U.S. EXPERIENCE WITH EMPLOYMENT SUBSIDY PROGRAMS

The United States has experimented with a variety of targeted employment subsidies. These programs--WIN tax credit, NAB-JOBS contracts, CETA On-the-Job Training subsidies, and the Targeted Jobs Tax Credit--have all been targeted on highly disadvantaged workers and have as a consequence been quite complicated to administer. In each of these programs, certification of a worker's eligibility has required separate application by and certification of both the worker and the employer. While these programs have helped specific individuals find jobs and get off welfare, they have not yet achieved significant scale and consequently have not had an appreciable impact upon the number of people on welfare or the unemployment rate of people in the target group.

A. NAB-JOBS

The first of the subsidy programs was the National Alliance for Business's JOBS program contract placements effort in which the government issued contracts that reimbursed employers for part of the cost of hiring and training disadvantaged workers. To qualify for the program a worker had to be a high school dropout, less than twenty-two or more than forty-five years old, handicapped, or in a family with below poverty level income. Contract placements grew from 8,400 in fiscal 1967 to 93,000 in fiscal 1971 and declined thereafter. Thus at its peak JOBS contracts were subsidizing only one-tenth of one percent of the nation's workers. Tight budgets were not responsible for the small scale of the program, for the administrators of the program were consistently unable to expend the funds programmed for JOBS contracts. In 1969, for instance, only $49 million of the $210 million programmed for JOBS contracts was expended.

Also significant is the fact that only one-third of the employers that hired JOBS enrollees went to the trouble of establishing a contractual arrangement and thus received a subsidy for what they were doing. This reveals that the problem is not just one of employers being reluctant to hire stigmatized individuals. Many employers seemed to find the delays and red tape of arranging a contract and the potentially greater vulnerability to affirmative action complaints so potentially costly, that they did not apply for the 50 percent subsidy of the first six months of a worker's wages for which they were eligible.

B. CETA-OJT

With the reorganization of manpower services mandated by the Comprehensive Employment and Training Act of 1973, the JOBS program evolved into what is now called CETA On-the-Job Training contracts. The OJT program has not developed an effective local constituency because many small business people have an ideological aversion to handouts and because the perceived benefits of participating are so small. The prime sponsors that were included in the EOPP Employer Survey seldom wrote contracts for more than one or two workers even when the participating firm was large. Many local prime sponsors choose to allocate their dollars to classroom training rather than OJT. Seldom does a firm receive more than one subsidized worker, and the maximum payment is generally less than 25 percent of a year's wages. Thus, despite congressional mandates to expand the scale of the program, only 1 percent of the nation's employers participated during 1979.

C. The WIN Tax Credit

For nearly ten years, employers that have hired recipients of Aid to Families with Dependent Children (AFDC) have been eligible for a tax credit. Despite increases in the rate of subsidy from 10 to 20 percent and now to 50 percent and other liberalization of the terms of the subsidy, claims for WIN tax credits have remained at a level of only thirty to forty thousand full-time equivalent workers for a number of years. This implies that less than 5 percent of each year's new WIN registrants, less than 2 percent of adults receiving AFDC benefits, and less than 10 percent of working welfare recipients have been aided by the WIN tax credit. As with JOBS, only a small proportion of the firms that hire WIN-eligible workers applied for the tax credit for which they were eligible. Either the firms did not know they were eligible, or they found the paperwork too burdensome and the benefit too small to warrant applying. Of those firms that received a WIN credit, less than 10 percent attributed their hiring of the WIN enrollee to the credit (Hamermesh 1978).

D. The Targeted Jobs Tax Credit

Beginning in 1979 employers outside the personal service sector have been able to obtain a tax credit of 50 percent of the first $6,000 of wages per employee for the first year of employment and 25 percent of such wages for the second year of employment for the hiring of certain categories of workers. These included high school students in cooperative education programs, economically disadvantaged youth (eighteen through twenty-four), veterans and exconvicts, Supplementary Security Income and general assistance recipients, and the handicapped.

The program started slow; but by fiscal 1981 it had grown to a point where 400,000 workers were being certified per year. Eligibility was tightened in 1981 and certifications are now running at about 300,000 a year.

TJTC's greater success at obtaining employer participation has been due to three features:

1. It is an entitlement. Reluctance on the part of local agencies to administer it cannot prevent a persistent employer from obtaining certification of employees that are eligible. In fact, ETA's 1979 Study of Early Implementation of TJTC found "the rather limited vouchering and certification activity that had taken place by then was largely in response to employer and applicant inquiries rather than active promotion by their staff."
2. At least one target group--the Co-op Ed students--was defined by a characteristic that does not carry stigma. For this group, student and employer certification were made into a one-step process and responsibility was centralized in the hands of a person--the high school official responsible for Co-op Ed--who was being judged by school supervisors on the basis of the number of jobs found for the target group. As a result, 45 percent of all jobs certified for TJTC's have been for Co-op Ed students. The 1981 reauthorization of TJTC limited the eligibility of Co-op Ed students to those from disadvantaged families so this comment does not apply to the current TJTC program.
3. Participation in TJTC requires less paperwork than CETA-OJT or the JOBS and early WIN programs did and requires fewer contacts between government agencies and the employer.

Nevertheless, the TJTC is currently helping less than 10 percent of the pool of young people eligible for the program. In contrast, NJTC attracted in its second year the participation of 50 to 70 percent of all eligible firms. There are three basic causes of TJTC's low participation rate:

1. For a long time most employers were not aware or were only vaguely aware of the program. A spring 1980 survey of employers found that only 17 percent of all employers representing establishments responsible for 33 percent of all employment reported being "familiar" with TJTC (EOPP Employer Survey). Firms that reported being familiar with the program often knew very little about it. The program is now much better known. A 1982 resurvey of these same employers found that 80 percent had "heard" of TJTC and 50 percent had spoken to a representative of government or a trade/business organization about the program.

2. There is a stigma attached to being a member of most of the TJTC's target groups. Employers perceive the program to be subsidizing people who do not make good workers. This reduces the likelihood that employers will ask CETA or the employment service to refer TJTC-eligible workers to their firm. Furthermore, many applicants feel that telling prospective employers of their eligibility for TJTC may hurt their chances of getting the job.

3. The complicated rules of eligibility means that most employers are unable to identify who is eligible on their own and that government certification of employee eligibility is necessary. This has three disadvantages: (a) it often forces the firm out of its traditional recruitment channels; (b) employers fear that it will introduce red tape into the hiring process or bring about unwelcome government interference (the costs of identifying and certifying who is eligible are thus major deterrents to participation); (c) the program's success depends upon cooperation between private business men and government bureaucrats. (Most employers are very wary of government and the attitude of government employees in some parts of the country reinforces their distrust.)

The first problem seems to have diminished, but greater publicity and aggressive promotion of the program are still necessary.

The other two problems, however, arise from a mismatch between the structure of the employment subsidy scheme and the recruitment processes that predominate in the relevant labor markets. Each month the typical employer is hiring one employee for every ten already on board (Cohen and Schwartz 1979). The probability that a new hire will still be with the firm six months later is less than 50 percent. As a result, employers try to keep the cost of searching for new employees to a minimum. Studies of how people have obtained their last job find that 35 percent of all jobs were found by applying directly to the firm without suggestions or referrals and that another 26 percent were obtained by applying directly to the firm at the suggestion of a friend or relative (Rosenfeld 1975). Most firms prefer to hire people who are recommended by current employees or who have shown their desire for the job by personally coming to the establishment and applying. Seventy percent of the employers with vacancies do not list the opening job with the employment service (Bishop, Barron and Hollenbeck 1983). As a result, even though 34 percent of all workers had checked with the employment service during their last period of job search, only 5.1 percent had gotten their jobs through an employment service referral. Employers prefer informal recruitment channels because (a) such channels are faster, (b) employers do not become inundated with job applicants who must be interviewed, (c) prescreening is possible so the number of applicants who are turned down is minimized, and (d) they can avoid dealing with government.

This preference acts to limit the market penetration of any program for finding jobs for the disadvantaged that depends upon a labor market intermediary--Job Service, or a CETA subcontractor such as the Urban League. High participation rates will be achieved only when unusually dedicated and competent people are running the labor market intermediary. With only ordinary leadership, such a program is bound to be only partially successful--helping some of the people who approach the agency for help but failing to reach most of the eligible population.

The targeted employment subsidies that preceded TJTC all necessitated agency referrals of eligible job applicants. With TJTC there are two alternate ways of bringing subsidy, employer, and job seeker together. Job seekers may inform employers of their eligibility. This does not now occur to a significant degree because most eligible workers are unaware of TJTC's existence and because most employment service offices do not routinely inform the eligibles that do come to it for assistance that they are eligible. The other barrier to this mechanism becoming important is the reluctance of many job applicants to advertise their TJTC eligibility for fear they will be stigmatized. This reluctance seems to be justified. An experiment in which TJTC-eligible job seekers were trained to inform employers of their eligibility for a tax credit found that such training caused a statistically significant reduction in placement rates (Burtless and Cheston 1981).

The second alternative mechanism assigns the initiative to the one who most directly benefits from the tax credit, the employer. This scenario envisions employers' screening their job applications for eligible individuals and then sending them down to the employment service for vouchering and certification before or after they are hired. Presumably, anticipating that A may be eligible for subsidy and B is not will increase the probability that A is offered the job. The use of family income and participation in welfare programs as targeting criteria, however, makes it difficult for employers to know who is eligible and thus prevents many employers from taking the tax credit into account when hiring. Sending job applicants over to the employment service prior to hiring does not seem to have become popular for it delays the hiring process, risks losing the worker altogether, and is thought to be unethical by many employers.

Identification of eligibles by the employer (or his agent) seems to have become the primary mechanism by which employers identify and certify TJTC eligible workers. For the first two and a half years of the TJTC program employers could apply for certification of an eligible employee long after the hiring date. The consequence was that many tax credits were awarded for employees whose eligibility was not learned of until after the date of hiring. During this period approximately 63 percent of the non Co-op Ed certifications of eligibility were being obtained after the individual had been hired. This has been interpreted as implying that the tax credit was not influencing many of the hiring decisions that resulted in receipt of a tax credit, and therefore, was producing "windfalls" for employers. Because of this concern the Economic Recovery Tax Act of 1981 outlawed retroactive certifications. Since fall 1981 all new certifications have had to be requested by the employer prior to the eligible individual's employment starting date.

E. Non-targeted Subsidies: the Contrast

There are important lessons to be learned from the U.S. experience with employment tax credits--the New Jobs Tax Credit, the WIN Tax Credit, and the Targeted Jobs Tax Credit. There are dramatic contrasts between take up rates. In 1979, fewer than 25,000 firms received a TJTC and fewer than 10,000 received a WIN Tax Credit. In 1978, 1,100,000 firms, more than 30 percent of all the nation's employers and more than half of the eligible firms, received a New Jobs Tax Credit (NJTC), a non targeted marginal wage subsidy designed to subsidize increases in employment. A 50 percent + participation rate is remarkably high. In contrast, six years after the introduction of accelerated depreciation in 1954 only 21 percent of all proprietorships and 30 percent of all corporations were using an accelerated depreciation method on any component of their capital stock (Ture, 1967). Only 47 percent of the eligible investment put in place between 1954 and 1960 was depreciated using acclerated methods. In the first year of the asset depreciation range system only 1.4 percent of all companies and only 60 percent of the total dollars of new investment in producers durables took advantage of the shorter life time available under ADR. Use of the accelerated depreciation range system is now much greater.

The NJTC seems to have had major impacts upon the economy. In its two years of operation, the NJTC subsidized more than 4 million person years of employment. All three studies of New Jobs Tax Credit have found that it increased employment. The NFIB study estimates 300,000 extra jobs by the summer of 1978, the Perloff and Wachter study 700,000 jobs in 1977 and the Bishop study estimates 150,000 to 670,000 jobs by summer of 1978 in construction and distribution alone. Bishop's study found that reductions in the margin between retail and manufacturers wholesale prices induced by NJTC saved consumers between $3.8 and $7 billion.

The lesson of our recent experience with employment subsidies is that a subsidy of private sector employment will reach a scale and cost efficiency sufficient to make a real dent in structural unemployment, only if:

1. Employers are able to simply certify their own eligibility.
2. The behavioral response desired of employers is obvious and simple for them to implement.
3. All or almost all employers are eligible (otherwise the result is a redistribution of who employs who).
4. Targeting is essential but it is more important to include all workers in need of help than to exclude workers that don't need the help.
5. The target group is defined by a non-stigmatizing criteria that is visible to the employer (a characteristic of the job like wage rate is better than characteristics of the worker).
6. It is marginal--paid for increases in employment above a threshold like NJTC.

III. A REVIEW AND EVALUATION OF SIX SPECIFIC PROPOSALS

A. Individual Training Accounts

In the Individual Training Account proposals made by Pat Choate and others, wage and salary employees and their employers would be allowed or required to contribute to a personal training fund set up for each worker. Contributions would be tax deductible and would be paid at a rate of $500 per year by each party over a period of six years. Workers laid off from their job could receive up to the entire $6,000 plus accumulated interest tax free for use as a voucher to pay for retraining, job search or relocation expenses. The worker would be free to choose any training certified by the Federal Government. Upon retirement the workers contribution to the ITA and accumulated interest could be turned into an annuity and the employers contribution and interest would be refunded to the employer.

The primary impact of such an ITA will be on federal revenues and the nations aggregate savings rate not on the number of unemployed who try to retrain themselves. If all wage and salary workers in the public and private sectors were compelled to participate in an ITA, federal revenues would decline by approximately 20 billion dollars a year for 6 years, the deficit would rise by a like amount and aggregate savings public and private, would most likely rise possibly by as much as 50 to 60 billion dollars a year. If ITA's were made voluntary, participation would be likely to be similar to that in IRA's (most participants would be high income) and the impact on the economy would be roughly of the same as an equivalent liberalization of IRA's. The other major impact of such a scheme would be as a disincentive for layoffs. If such a disincentive were desirable, however, it could be accomplished by strengthening experience rating of the unemployment insurance system or by explicitly taxing layoffs.

An ITA would have only a small impact on the training decisions of the unemployed. School-provided training is already heavily subsidized by low state-subsidized tuition, BEOG's, fellowships, guaranteed student loans, the GI Bill, JTPA, and tuition reimbursement by private employers. The additional effect of an ITA would not be great. The much more generous subsidies of the GI Bill increased the degree credit college attendance rates of Vietnam Veterans over the age of 25 by only about 3 percentage points or a factor 1.55

in April 1970 (Bishop and Van Dyk, 1978). The primary barrier to increased participation in school based training programs by the unemployed is not financial. More significant barriers are the fear and dislike that many adults have of schools and the lack of community college programs that are designed for the unemployed. The unemployed need intensive full time training programs that can be begun at almost any time of the year and completed quickly. The needs of the community college's other student populations--part-time students, evening students, recent high school graduates--are different and since the unemployed are only a small part of the community college's clientele, most community college's have not found the resources to offer the kinds of programs that would attract them in greater numbers.

If an ITA is voluntary, there will be a further problem. Participation is likely to be positively related to income and negatively related to the probability of being laid off. Consequently, only a small proportion of the unemployed workers needing retraining assistance would be likely to have ITA funds available to them.

ITA's address only one element--cash flow problems of mature laid off workers--of the nations overall training problem. The much more important issue of the quality of the education and training provided by educational institutions and the insufficient quantity of employer provided OJT are ignored. Despite this I find myself inclined to support the concept not so much for its impact on training but because raising the nations aggregate savings rate deserves very high priority and a compulsory ITA would be a form of compulsory savings that if financed by increased taxes would dramatically increase aggregate savings.

B. The Re-employment Voucher

The re-employment voucher proposed in Amendment # 518 to HR 1900 offers a worker the option of using his entitlement to Federal extended unemployment insurance benefits as a job subsidy rather than as income maintenance. It has some attractive features:

- The voucher can be used to subsidize any job whether it is at a profit for or not-for-profit organization and regardless of whether the employer has a positive tax liability.
- It seems to be simple for the employer to administer.
- Worker eligibility is defined by a characteristic (being unemployed for six months) that is already known by the employer. Hence if a job seeker advertises his eligibility for the voucher, it should not have the effect of stigmatizing him/her any more than they already are stigmatized by virture of the long-term unemployment.
- The size of the voucher payment is related to how long the individual works at the new firm.
- The job-seekers previous employers are ineligible for the voucher--not excluding them would have produced an incentive to lay off workers with plans to rehire them six months later.
- Payments are made to the firm almost immediately after hiring the worker, reducing the working capital needed to expand employment.

It should be noted that most of the long-term unemployed will not be eligible for this voucher. Many of the long-term unemployed are not receiving UI because prior to their current spell of unemployment they worked for too short a period of time in covered employment. Only about half of all unemployed workers are currently receiving UI. Others will be ineligible because they will not hear of the program's existence in the one month period they have to sign up for it.

Participation Amongst Eligibles

Since the legislation does not require the job seeker to give up his UI eligibility before finding a job, there are two ways a job seeker can get a subsidized job. He/she can get the job first and then apply for the voucher (this must be done before or during the one month period of eligibility), or he/she can apply for the voucher (temporarily giving up the supplementary UI benefits) in the hope of finding a job. I would not expect this latter mechanism to be very important. The reason is that participation requires a positive act on the part of the job seeker in which he or she temporarily sacrifices next week's UI payment in hopes of quickly getting a job because of the subsidy. If the job search with voucher in hand is unsuccessful, he or she can get their supplementary UI benefits later, but since most people unemployed for six months or more have severe cash flow problems, many will not be able to afford a one or two month period of no UI benefits, especially when the out-of-pocket costs of job search are higher because of the increased search intensity.[4]

A second reason for not expecting many eligibles to choose the voucher without already having arranged a job is that job seekers seem to be averse to announcing to prospective employers that they are on "sale", i.e., can be obtained cheaper. This has been reported by counselors who deal with TJTC eligibles. It may be for a good reason, because two experiments in which TJTC eligibles were taught to use their eligibility for TJTC as a selling point in their job search (one in Dayton, Ohio, the other in Wisconsin) have found that TJTC eligibles randomly assigned to be trained to mention the TJTC were less likely to find a job then other TJTC eligibles. The reason that advertising one's TJTC eligibility seems to have this effect is that announcing one's eligibility tells the prospective employer something--I am a welfare recipient, from a low income family, or an ex-con, etc.--that in most cases the employer did not know before and that stigmatizes the job seeker. Presumably, the voucher for being unemployed long enough to receive supplementary UI will not have the same effect, but one cannot be sure.

If participation is to reach a reasonable level, it will require initiative on the part of the employer or a labor market intermediary. One can envision an employer putting in a job order at the Employment Service (ES), "I have x jobs for people who have recently become eligible for Federal supplementary payments. They do not have to have chosen the voucher yet, only be eligible to choose the voucher". If the ES cooperates with such requests, the firm's costs of finding eligible workers will be low. The firm can offer the job to the eligible job applicant it feels is most qualified on the condition that the person apply for the voucher.

An alternative mechanism that does not require the firm to request referrals from the ES (70 percent of firms with vacancies do not ask for referrals from the ES) would be for it to screen job applications searching for people who have been out of work the required amount of time (e.g., 5 to 7 months), and then ask those who seem to be eligible for the voucher when their regular

UI will be or was exhausted. The firm would select from amongst the eligibles and offer the job on the condition that the applicant apply for the voucher. If an attractive job candidate is not yet but soon will be eligible, it would seem likely that the applicant will be told to return when he/she is eligible. If this candidate is particularly well qualified and the firm does not expect future openings, the voucher might cause a firm to postpone filling a vacancy until the not yet eligible job applicant becomes eligible.

The example just discussed illustrates one of the problems that arise from targeting a benefit on people unemployed for a particular period of time. Even if the voucher does not cause a firm to hold a particular job open while waiting for the preferred candidate to become eligible, its main effect will be to change who is hired, not increase total employment. Senator Quayle acknowledges that "the amendment will not overcome low demand for workers, but it will target employment to the long-term unemployed". The designers of the voucher scheme have set their sights too low. The objective should be increasing total employment and reducing unemployment without rekindling inflation, not just redistributing the pain of unemployment. Any governmental intervention in the labor market involves some cost and some distortions. If one must incur these costs, they need to be justified by benefits to one job seeker that are not offset by losses to other job seekers.

C. The French Mandate to Spend

Every French employer with 10 or more employees must expend 1.1 percent of its wage bill on retraining or pay a tax equal to the difference between its obligated and actual training expenditure. Every employer regardless of size must also expend .5 percent of its wage bill on apprenticeship training or pay a tax equal to the difference between its obligated and actual training expenditure. The obligation to spend can be fulfilled by expenditures on the firm's own formal training program, by contributions to training insurance fund agreed to by management and labor or by contributions to a government approved training program for the unemployed.[5]

In-firm training accounts for about 75 percent of the expenditures reported to French authorities. In-firm training must have a curriculum, develop a skill that is useful at other firms and be located away from the trainees normal work station. Each firm with more than 100 employees must have or labor management committee overseeing its training program.[6] The auditing of the firm's reports of training expenditure is accomplished by a staff of 120 controllers. About two thirds of retraining expenditure is for occupational advancement and refresher courses to maintain skills. The French mandate to spend has the following advantages:

- Employer needs for skilled workers determine the allocation of funds so the risk that people will be trained for jobs that don't exist is small.
- Training funds are available to the employed as well as the unemployed.
- Decision making is decentralized.

The French system also has some important disadvantages, however:

- Sixty percent of the 120,000 French firms subject to tax report spending more than 1.1 percent of their payroll on re-training. These firms employ more than 80 percent of the workers in firms with 10 or more employees. At these firms, the system provides no incentive to expand training expenditures beyond 1.1 percent of payroll.
- Firms whose training expenditures are below 1.6 percent of their wage bill, save in taxes the full amount of any increase in expenditures on training. This will inevitably induce a careless attitude toward costs and reduce the efficiency of training.
- Expenditures on formal training reduce the firm's tax liability, but the costs of informal training do not. This is unfair to small firms which tend to do their training informally because they do not have the scale necessary to make formal training cost effective. Small firms must join together in cooperative efforts to achieve the scale necessary to make formal training feasible. The second unfortunate result of this is that a strong incentive is produced to substitute formal training for informal training despite the fact that there is no evidence (either of an empirical or theoretical variety) that formal training is to be preferred over informal training.

These problems with the French mandate to spend can be ameliorated by appropriate modifications of its basic design. A subsidy scheme that addresses these problems is described in the next section.

D. Marginal Training Subsidy

A marginal training subsidy (MTS) would offer a partial subsidy of training expenditures above a threshold level. The rate of subsidy or tax credit would be set somewhere between 10 and 33 percent. The training costs that would be eligible for subsidy would include payments to industry training funds, tuition reimbursements for job related training, contributions of materials or staff time to vocational/technical institutions, the budgeted costs of the firm's formal training of new and continuing employees, and certain of the costs of informal training of new and upgraded employees.[7] Participating companies with more than 100 employees would be required to have a training advisory committee that contains worker representation.

While the measurement of the costs of informal training is difficult, it must be attempted if choices between formal and informal training are not to be distorted.[8] The subsidizable costs of informal training would be limited to trainee time and trainer time during the first year of employment or during the first 3 months after a major promotion and change in job responsibility. If the training is formal, certain additional expenses--books and materials, rental on teaching machines and equipment or office space dedicated entirely to training, and payments to training vendors--would be eligible for subsidy. Formal training would be subsidizable regardless of length of tenure and whether the worker is receiving a promotion. At the conclusion of the training program or the firm's fiscal year, the employer would be required to award each trainee a certificate describing the number of hours of formal or informal training provided/attended, skills taught and where appropriate, the competence achieved.

The threshold which must be exceeded before a subsidy or tax credit would be paid would be equal to 10 percent of the firm or establishments wage payments to employees with less than one year of tenure at the firm plus 1.5 percent of wage payments to all other employees. The threshold is higher for firms with many new employees because (a) new employees tend to receive more training than continuing employees and (b) the costs of informal training are subsidizable only during the first year on the job and for a short period after a promotion.

A subsidy above a threshold has some important advantages over an obligation to spend a minimum amount on training:

- Firms that are big trainers (and therefore probably efficient trainers) of skilled workers would always face an incentive to expand their training.
- The great majority of French employees work at firms which exceed their obligation to spend on training so at the margin, there is no public encouragement of additional training for the majority of French workers. A subsidy above a threshold avoids this problem.
- Paperwork is reduced because most firms would not apply for a subsidy in most years. Year-to-year variations in training expenditures are likely to be large at small firms. Such firms would most likely spend above the threshold only in years in which there is a major expansion of employment or the installation of new equipment.
- Employers who feel the administrative burdens of the subsidy are too high, are free not to participate.

All employers--profit making, non-profit and governmental--should be eligible for the marginal training subsidy if their training expenditures exceed the threshold defined for their organization.[9] In order for incentive effects to be maximized, employers must feel they are assured a larger subsidy payment if they increase their firm's training investment. Together these two considerations imply that the MTS should be administered either as a subsidy entitlement, as a tax credit against a broad based tax on the firm's wage bill like FUTA or social security, or a tax credit against income taxes that can be sold to other firms.[10] The MTS would be financed either out of general revenue or a special training tax on the wage bill of all employers. In order to give firms time to set up the accounting procedures to record training expenditures, it would be phased in at least a year after the legislation is passed.

The MTS has a number of important advantages relative to the costs of the training:

- The social benefits of on-the-job training are probably just as large as the social benefits of occupationally specific training provided by schools. The MTS would create an incentive for firms and workers to generate more of such benefits and would reduce currently prevailing distortions of the choice between these two modes of providing occupationally specific training.
- Since the employer pays 67 to 90 percent of the cost of training, there is always an incentive to do the training in the most efficient manner possible.
- Choice of which jobs to train for and how to do the training is made by the employer not by an educator, a government bureaucrat or by the

trainee. The employer is the person best able to project the firm's future need for skilled workers and to select the best method of training for those skills.

- The inclusion of the costs of informal training in the definition of subsidizable training expenses is fair to small business and avoids distorting choices between formal and informal training.
- While the MTS is not directly targeted on the unemployed dislocated worker, it will reduce unemployment nevertheless, and would do so more efficiently than a targeted program like an ITA or the reemployment voucher. The MTS reduces unemployment in two ways:

  It encourages firms to hire and train new workers; and to retrain rather than lay-off workers whose skills were becoming obsolete.

  It encourages the firm to expand the supply of skilled workers rather than engaging in a bidding war for the limited supply of already trained workers thus producing an acceleration of inflation.
- The MTS should discourage turnover. A firm with high rates of turnover will have a higher threshold and will as a result receive a smaller subsidy payment.

The MTS has as its objective expansion and intensification of on-the-job training. Only two small reforms of current practice are proposed--training advisory committees at firms with more than 100 employees and providing the trainee a certificate describing the training that has been received.[11] All the really important decisions--who is to be trained, what is to be taught, and how it is to be taught--are made by the employer and the worker (the workers influence these decisions by bidding for jobs that require training, by selecting an employer who provides the desired training, and the commitment that is given to learning the material that is presented).

Employers and workers probably invest nearly $100 billion of time and resources in formal and informal on-the-job training each year. Consequently, covering all employers and all kinds of training inevitably means costs can be kept down only if the subsidy rate is set rather low, the definition of subsidizable expenditure is restrictive and the threshold is set rather high.

E. A Critical Skills Training Incentive

An alternative approach to promoting more private investment in on-the-job training is to target certain critical occupations that are experiencing severe shortages. A subsidy would be offered for training newly hired and/or transferred employees in a few selected occupations. The advantage of such a scheme over the MTS is that calculating and reporting how much is spent on training is not necessary. Eligibility for subsidy is a function of an output--the number of people trained for certain specific jobs--not a measure of input. The disadvantage is that the government must have sufficient wisdom to pick occupations that are truly in shortage.

1. Selecting Skills for Which to Provide Training Subsidies

Legislation would restrict the subsidy to a limited number of industries that currently export a major share of their output, or are service firms that provide specialized high tech services. Examples might be communications, machinery, instruments, chemicals, pharmaceuticals, electronics, computer service and R & D laboratories. The Department of Labor would be given a fixed budget and told to select a limited number of specific skilled jobs for which training subsidies would be available. Legislation would establish the following criteria for making these selections:

- Rapid projected growth of demand for the skill.
- A rising relative wage in most recent data. (For totally new jobs, criteria would be high wages relative to other occupations requiring the same amount of training.)
- Projected supply from training institutions that is too small to meet demand. (A showing that on-the-job training is more efficient or a necessary supplement to classroom training could substitute for a gap between demand and training institution graduations.)
- Skills that have application in more than one firm. (Since this would be calculated on a national basis it would not be likely to eliminate many skills.)
- Total training costs of both formal and informal training that are at least 33 percent of year's wages.

There would be a sunset provision. A declaration of a skill's eligibility for subsidy would last only one year. Two one-year extensions of this eligibility period would be possible if justified by updated demand/supply information. Further extensions would require congressional authorization. The eligibility of a particular worker's training for subsidy would be based on when the training was initiated, even when the training period extends beyond the eligibility period.

A sunset provision is essential for two reasons:

- It maximizes the immediate incentive effect. Knowledge that the subsidy probably will not be available a year or two from now will induce firms to react more quickly to the subsidy.
- Circumstances rapidly change and a shortage at one point in time can quickly become a surplus (as occurred for operators of oil and gas drilling rigs.)

2. The Role of Competency Certification

The Secretary of Labor would be empowered to make competency certification (under the auspices of a multi-employer or union umbrella organization) a part of the mechanism for defining eligibility for a critical skills training subsidy. Systems for competency certification currently exist in construction, telecommunications, banking and a variety of other industries. In some industries and occupations, an existing system(s) could be adopted "as is" or modified, in other industries and occupations a new system would have to be developed. Since an occupation is eligible for a critical skills training subsidy for only a limited period, a judgment would have to be made as to whether the benefits of competency certification would outweigh the inevitable cost and delays that such a requirement would impose.[12] In addition, in certain fast changing fields codifying what must be learned in this way might not be desirable.

3. Amount of Subsidy

Once an occupation had been selected as a potential candidate for subsidy the Secretary of Labor would appoint an industry/labor committee to make recommendations regarding the definition of the critical skill, the competencies that a trained individual would be expected to have, and possible mechanisms to insure that subsidized trainees achieve these standards. The Department of Labor would be required to do a small informal survey of the costs of training and the length of the training period for (a) a typical new hire without relevant experience, and (b) retraining current employees who lack the skill.[13] The survey would be the basis for establishing separate cost standards for new hires and for current employees at approximately the 50th percentile in the distribution of total costs. The results of the survey would be reviewed by

DOL staff and the industry/labor committee. DOL staff would make a formal recommendation to the Secretary which advisory committee could endorse or take exception to as it wished.

The total subsidy available per trainee would be 33 percent of this cost standard. The announced standards and definitions would go into effect immediately after they were announced. Training costs allowed in future years would be indexed to the economy's average hourly wage, so the survey would only need to be done once. Hearings would be conducted after the announcement of the cost standards and related definitions and DOL could retroactively liberalize definitions and/or the limits in response to industry comments.

4. Payment of Subsidy

Application for a subsidy of a particular trainee must be made within one week of the start of the training (within one week of the date of beginning work in the case of a new hire). The application form would be quite simple, requiring only the name and social security number of the trainee, employer ID number, the training establishment's name and address, the firm's name and address, the skill for which training is being provided, the trainee's wage, and a description of the job (including its wage) for which he/she is being trained. The requirement of immediate application for the training subsidy has three purposes: (1) by forcing the firm to be aware of the subsidy when it begins the training, it maximized the subsidy's incentive effect and reduces retroactivity, (2) it allows DOL to continuously monitor the number of trainees its program has stimulated, and to project future costs and the fullfillment of its goals, (3) for the firm it locks in the terms and conditions of subsidy that prevailed at the date training was commenced. If DOL determines that more (less) training is being undertaken than needed or was budgeted, it has the right without advance notice to restrict (liberalize) the definition of subsidizable jobs/skills, lower (raise) the training cost allowance or end that occupation's eligibility. Changes in rules would apply to all training programs begun one week or more after the announcement of the change.

There would be no limit to the number of trainees for which an employer could be subsidized, and the firm would not have to obtain advance agreement from DOL as to this number. The employer would only have to certify (1) that the training he provides results in the worker's attaining the critical skill, and (2) that the trainees did not have that skill prior to the training. This certification would be audited on a random basis. An advance opinion as to the eligibility of a proposed training program (binding on DOL) would be available to employers who request it.[14]

Workers who complete training would be awarded a certificate attesting to the skills they have achieved. The skills taught by the training program would be described in detail either on the back of the certificate or on an attachment.

5. Summary of the Critical Skills Training Incentive

The administration of this Critical Skills Training Incentive has been described in considerable detail for several reasons:

- the popularity of the program with employers will depend upon how easy it is for them to administer it,
- the power of the incentives it produces and the cost of the program may depend upon seemingly minor administrative matters (such as when application for subsidy must be made),
- the primary concern about proposals such as this is whether they can be administered, so there needs to be a demonstration of the feasibility of the program.

The plan described has a number of attractive features:

* It is limited in scope to occupations in critical shortage.
* Great flexibility is given to program administrators. (This is essential because the very concept of the program is new and because it must quickly respond to the changing needs of the economy.)
* Workers who complete training are awarded a certificate that describes the skills they have gained.
* The firm always faces a marginal incentive to expand its training of targeted skills. (It does not have to get prior agreement from DOL about how many people to train an administrative hassel that would be a major barrier to participation.)
* The firm is given an incentive to retain the workers it trains.
* Despite the almost 'entitlement' nature of the training subsidy, its total cost is capped by the monitoring of usage and DOL's ability to lower subsidy amounts and tighten eligibility.
* A sunset provision automatically ends a skill's eligibility for subsidy.
* Cost could be further reduced by building in a marginal feature in firms that already employ people in the targeted skilled occupations. It could be assumed that in the normal course of events such firms would have to replace 10 percent of their stock of workers with the targeted skills anyway. The subsidy could be paid for trainees above this threshold.
* It complements the Subsidy of Increases in Employment described in the next section.

F. A Subsidy of Increases in Employment

Policies that can achieve the twin objectives of stimulating employment while simultaneously reducing inflation must have the effect of significantly lowering the marginal costs of the firm's expansion and maintaining this reduction in marginal costs for a considerable period of time. In competitive markets, a reduction in marginal costs is equivalent to an outward shift of the supply curve and this inevitably results in more real output, more jobs and lower prices. In monopolistically competitive markets a reduction in marginal costs that can be counted on to last for a while will induce the firm to lower its selling price and compete more aggressively.[15] Here again the result is more jobs, more output and lower prices. The stimulus to employment will, of course, be greatest if the subsidy of marginal costs is limited to employment costs.

If well designed, private sector employment subsidies of expansions in the employment and training of unskilled and young workers are an effective means of reducing this stagflation problem. A number of studies have come to the conclusion that employment can be increased and aggregate unemployment decreased by shifting employment demand from skilled labor markets to unskilled labor markets. Two empirical studies (Baily and Tobin, 1978; Nichols, 1980) have found that low unemployment rates in skilled labor markets have a much more powerful influence on aggregate wage inflation than unemployment rates in unskilled labor markets. When analyzed in a general equilibrium framework, it has been found that because of the minimum wage, transfer programs and high wage elasticities of labor supply by teenagers, women and low wage workers generally, a wage subsidy of unskilled labor will increase their employment without significantly reducing the employment of skilled workers even if the skilled workers are taxed to provide the subsidy (Bishop, 1979; Johnson, 1980).

The revenue costs of a significant reduction in the costs of increasing employment can be minimized by setting a threshold (say 1983's FUTA tax base, or aggregate hours worked by all employed in the firm) and subsidizing increases in that index of employment. A subsidy of employment above a threshold is preferred over subsidizing new hires because many firms have turnover rates of 50 to 100 percent. Subsidizing new hires quickly results in one's subsidizing the firm's entire work force. The use of either the FUTA tax base (as was done with the NJTC) or hours worked as the basis for subsidy would concentrate the subsidy on the lowest-skill jobs--exactly the segment of the labor market where labor surpluses are greatest. Such a focus is desirable because a general expansion of the economy will quickly produce shortages in certain skilled occupations and the competitive bidding for the limited number of people with needed skills that will result will rekindle inflation. The subsidy could be even more strongly focused on the least skilled by having a provision that reduces the subsidy if the firm's average wage in 1984 exceeds its 1983 wage by more than some standard amount (say 5%). Such a provision would have the further beneficial effect of putting direct downward pressure on wage inflation. Our experience with the NJTC suggests that a marginal wage subsidy of that type may promote wage inflation. This tendency can be forestalled, however, by reducing the potential tax credits of a firm if its wage increases exceed some wage increase standard. Such a subsidy can be very simple to administer. To calculate its subsidy the firm would need four numbers: total wage bill this year and in the base year and total hours worked this year and in the base year.

How such a scheme would work is most easily understood by examining a specific proposal. (The specific parameters of this proposal are illustrative.) Firms and nonprofit entities would receive a tax credit against Social Security taxes of $1.00 per hour for every hour by which total hours worked (including those worked by salaried management) at the firm in 1984 exceed total hours worked in 1983.[16] A tax credit would also be provided in 1985 for increases in total hours worked over the higher of 1984 or 1983's hours worked. In 1986, the tax credit would be for increases in total hours worked over the highest of 1985, 1984, or 1983 hours worked. The tax credit is reduced if its average wage (calculated by dividing total compensation by total hours worked) in 1984 was more than 5 percent greater than its 1983 wage. The threshold for the wage increase "take back" might be 10 percent in 1985 and 15 percent in 1986.

A general formula for the tax credit is

$$TC = s \sum_i \Delta H_{i_t} - u \sum_i (W_{i_t} - g\bar{W}_o) H_{i_t}$$

subject to the constraint that $TC \geq 0$ and $\sum_i (W_{i_t} - g\bar{W}_o) H_{i_t} \geq 0$

where H_{i_t} = hours worked by people in the i^{th} job during time period t

ΔH_{i_t} = growth of employeemnt in the i^{th} job above the threshold

W_{i_t} = hourly wage rate of the i^{th} job in time period t

$\overline{W}_o$ = the firm's average wage in the base period

s = hourly tax credit

g = wage growth standard, $g > 1$

u = take back rate

An increase in the wage rate is taxed at the rate u. This discourages wage increases above the standard. An expansion of hours that leaves the composition of employment unchanged is subsidized at the rate of s dollars per hour. Where expansions are not proportional and the firm is in the take back region, the tax benefit depends upon the wage rate of the jobs that are expanded:

$$\frac{dTC}{dH} = s-u(W_{i_t}-g\overline{W}_o)$$

If, for instance, s = \$1 per hour, u = .1, and gWo = \$8.00 an hour, offering an additional job paying \$4.00 an hour would generate a tax credit of \$1.40 per hour, expanding a job paying \$12.00 would generate a credit of \$.60 an hour, and expanding a job paying \$18.00 an hour would generate no credit.

This type of a marginal employment subsidy has a number of attractive features:

1. Firms are encouraged to increase employment by hiring inexperienced workers and training them rather than by increasing overtime work or bidding experienced workers away from other firms by raising wages.
2. Within each firm it tends to target the employment stimulus on the least skilled workers. (This occurs because hiring extra low wage workers lowers the average wage of the firm, and this helps the firm meet the 6 percent wage increase standard.) The increase in demand at the unskilled end of the labor market should produce large reductions in the unemployment of youth and the disadvantaged.
3. Targeting on less skilled workers is accomplished without giving low wage firms a proportionately larger subsidy.
4. Firms are encouraged to slow the rate at which they increase wage rates.
5. Both marginal and average costs of production are reduced, while simultaneously, wage increases above the standard are taxed. Penalty tax incentive based income policies (TIP's) in contrast, have the disadvantage of raising marginal and average costs, and therefore, prices of firms that violate the wage standard (Seidman 1978 and Dildine and Sunley 1978).

It is a balanced anti-inflation program. The subsidy component lowers price inflation and the wage increase "take back" lowers wage inflation.

Footnotes

1. When asked "How many of the skills learned by new employees on the job are useful outside of the company?" 60% responded "almost all" and 13% responded "most".

2. During the first three months of tenure productivity net of training costs of the new hire is only about half of that of a worker with two years of tenure. Despite this, the inflation adjusted wage differential for the first two years of tenure is only about 10 or 15 percent (Bishop, 1983). Potential reasons for this pattern are explored in Bishop (1982, p. 184) and Bendick and Egan (1982, p. 38)

3. Not only does the trainee benefit from his training through a higher wage in the next job but the next employer seems to benefit as well (Bishop 1983). A preliminary examination of the data indicates that private returns to OJT are quite high. This means that social returns are even higher.

4. An important feature that is not specified in the legislation is whether if job search is unsuccessful the supplementary UI payments are retroactive payments for the period of unsuccessful job search, or whether they are extended eligibility for payment for the weeks of job search following the request for the UI payment. The former is to be preferred.

5. Firms which exceed their obligation to spend in a particular year may carry the excess forward and use it to fullfill their obligation in any of the next three years. The French Assembly is now considering a bill that would add paid training leave to the list of eligible retraining expenses.

6. In the view of French authorities the existence and make up of these committees helps assure that the training is truly general and that the expenditure claimed truly had a training purpose.

7. To insure that only training gets subsidized/not vacations or motivational sales meetings, subsidizable expenditures might be defined to exclude (1) travel to a remote site other than the company's national or the appropriate regional headquarters, (2) housing and food expenses of more than $100 a day, (3) costs of training non-employees, part time employees working less than 50 hours a month or employees for whom more than 50 percent of compensation comes from commissions, (4) payments to speakers or presenters of a training session of more than $1000 or $200 per contact hour which ever is higher. The costs of developing a training package or system for use in training onesown staff would be an allowable expense.

8. A trainee would be considered to be engaged in formal or informal training if he is receiving group instruction, being instructed by a computer, reading manuals or instruction booklets watching others do the work or being shown the work. A trainer, supervisor or coworkers time would be considered to be engaged in a training activity only if 100% of the trainers attention is devoted to the training purpose. If any output is produced during a training activity it would have to be given to the trainee, discarded or given away. The following tests could be used to define a promotion for

purposes of calculating subsidizable training expenses: there would have to be a new job title, noticeably different job duties and a wage increase of at least 6% above the standard seniority or cost of living increment and the individual could not have held that particular job before. In order for new employee training to be subsidizable it would have to be associated with a wage increase by the end of that year off at least 10 percent over and above the rise in the cost of living.

9. To insure that employers who receive an MTS subsidy were aware of the program at the time it might influence their behavior, it could be required that the employees make a preliminary application before July 1 of the calendar year for which a subsidy is sought.

10. If the MTS is a subsidy, subsidy payments would be taxable income. If the MTS is a tax credit the firm would have to reduce its reported social security or FUTA tax payments by the amount of the tax credit.

11. To the extent that the accounting rules used to distinguish training activities from production activities affect the way training is conducted this is an unfortunate unintended consequence of the necessity of defining a dollar quantity of training expenditure for each firm.

12. There would be on expectation that the organization sponsoring the competency certification would continue to offer and promote competency certification after the end of the period of the occupation's eligibility. Conditioning the CSTI on the existence of competency certification would tend to encourage industry groups seeking designation of one of their jobs/skills as a critical skill to create a certification process for that job.

13. The survey would not be very costly and would not take long, once a sample of employers who have trained such workers was obtained. While visits to establishments by specialized staff would be the preferred mechanism, it could be done over the phone. A telephone interview approach to measuring on-the-job training costs for specific jobs has been developed by the National Center for Research in Vocational Education and implemented by the Gallup Organization at a cost of less than $75 per interview. The training costs that would be measured by this survey would include:
    1) payments to outside vendors such as a training institution,
    2) depreciation on machinery 100 percent devoted to training,
    3) time of specialized training personnel that is spent in contact with the trainee or preparing lessons,
    4) time of supervisors or coworkers spent giving formal or informal training to the non-worker above a 40 hour minimum,
    5) time of the trainee that is spent in a formal or informal training activity that is not directly productive.

    The survey would also serve as a basis for developing an operational definition of the job or skill for which training subsidies would be provided, and for the levels of the skills.

14. The calculated amount of subsidy would be paid in equal semiannual installments over the training period that has been established for that skill. If the worker is employed at the firm for less than the full training period, the subsidy payment would be prorationed for the period he/she was at the firm. The payments would be taxable income. Training establishments would submit semi-annual bills to DOL for the subsidy payments due to it. The payment would be made to the training establishment (even when that establishment is part of a multi-establishment firm) because auditing would be carried out at the establishment level, and because the payment then shows up in the right place in multi-establishment firms with divisional profit centers.

15. The primary purpose of the subsidy of increases in employment is to induce increases in output and thereby correct the distortions produced by the prevalence of monopolistic competition (Price > marginal cost) in our economy. Its marginal character is not new. Investment tax credits and liberalizations of depreciation rules that are not retroactively available to already installed capital equipment have had the effect of lowering the long run marginal cost of many products below the prices that prevailed at the time of the tax change.

16. To insure that the employer was at least aware of the tax credit at the time employment decisions are being made, preliminary application for it would have to be made by July 1, of the calendar year for which subsidy is requested.

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Representative **Lungren**. Thank you very much. I want to thank all of you for the obvious preparation and the seriousness with which you addressed yourselves to the questions that we asked.

Mr. Choate, I would just like to ask you one question for an observation on the definition of structural unemployment.

In your prepared statement you talked about a concern with the older worker as well as the youth or the young people that the other two gentlemen referred to as perhaps the major part of the structural unemployment problem.

Do you see a major difference between yourself and the others or do you also see as a major portion of the problem the high unemployment among young people?

Mr. **Choate**. Let me just comment. That was one of the points made in the other testimony that I did want to get into.

As Professor Summers indicated, he divided unemployment into two categories: structural and cyclical. In that definition, obviously, the youth and the economically and culturally disadvantaged would constitute the largest part of structural unemployment.

In my comments I have focused on that part of the work force that has been at work and then, through some variety of combinations, is no longer at work because their jobs have permanently disappeared. It is more in line with the definition that the Congressional Budget Office used in their study of displacement.

So for just purposes of semantics, we can call those unemployed displaced workers. There are no precise numbers of how many displaced workers there are today but CBO used I think a rather restrictive definition and came up with a figure of 2.2 million.

Now while that is not the largest portion of the structural unemployment, my point is it is a very critical portion of it. Neither is this to say that we should not and must not address the other sections—youth and the disadvantaged.

Representative **Lungren**. But except for those displaced workers, is this a phenomena which is so different than what we have had before in our economy when we have gone through changes that we need some significant governmental changes? Is it a repetition of what we have had or is it so different in degree that it requires us to affirmatively act with some different Government programs, either the individual training account or some others or a combination thereof?

Mr. **Choate**. In my view, it is. I also had the opportunity to read Mr. Lawrence's paper and it is a persuasive argument he makes. But I think one of the telling points that one can make by looking at his argument is, first of all, there are shifts in world market share. Even though the United States, for example, manufactures and still contributes 30 percent of our GNP, when one begins to take a look at the composition of that manufacturing and also to look at the rise of our foreign competitors, what one sees in both the basic and advanced industries, is a decline, and in many cases a significant decline, in relative market shares. I think that prospectively we will see that trend continue.

Now if that is true, and I do think it is true, then we will see a greater worker displacement in the 1980's and 1990's than we saw in the 1960's and 1970's. Thus, I think we need to put in place some new systems to confront this challenge.

I concur with Professor Bishop's comments that it becomes very difficult for Government to determine what skills are necessary or for Government to determine what training an individual company requires. That is why there is a necessity, in a time of what seems to be rapid change, for great flexibility by individual companies and individual workers in making those choices.

Representative LUNGREN. Let me ask you with respect to that, as you envision it, as I understand from your ITA proposal, the individual employee would have the flexibility to decide what type of training program he or she would like to be involved in.

Mr. CHOATE. And the location of where they would secure that training.

Representative LUNGREN. Would there be any limits as to some outside judgment as to whether the use to which they are putting that is in fact a use that would help them be trained for further employment?

Mr. CHOATE. To the extent as it was done with the GI bill where there would be certification that the training institution itself is competent and it is not a rip and run operation, that it is giving worthy training. That would be the limits of that. Under the ITA I think a rather straightforward principle would insure wise use of funds—that is, half of the money would be the worker's money and ultimately it is the worker that has to take the responsibility for whatever decisions are made.

Interestingly enough, some studies which have been done by the National Commission on Employment, where they have taken a look at voucher training, indicate that would be fairly good participation in that type of program. They did a study of Vietnamese veterans I think in the period 1969 through 1975, and what they found was high participation. About 59 percent of all those eligible, took the training and they found that it did result in increased earnings on the part of most who participated.

So it seems to me that the individuals that have the opportunity will take advantage and if they take advantage they can make pretty good decisions about their own interests and career.

Representative LUNGREN. We had some testimony from a gentleman who is in charge of much of what Ford Motor Co. is doing in the area of retraining, and he indicated that under their tuition program where they have no limits on their employees as to what they do that they found the vast majority of the employees do in fact use that program for skilled orientation. I asked him whether that was true because they are in an industry which is generally recognized by those outside the industry and inside the industry as one that is losing jobs in total, and I do not recall him being able to really respond to that because the program has really been in effect during a period of time in which there has been concern about jobs.

I like the idea of individual choice and the opportunity to utilize those funds that you set aside. I see a problem we have in the Congress with the reluctance to do more with the tax code. At the time that your proposal is being considered, we have individual housing accounts being recommended to help young people buy their first house. We have the individual retirement accounts. There are a lot of individual accounts that people are suggesting. Sometimes if you add them all up, it would insure a pretty good size tax cut to the average person, and you wonder if in fact we are going to be able to move in that direction.

Professor Summers, you talked about the structural unemployment problem, that which would remain after we basically have had an economic recovery.

In your view, why does that residual unemployment appear to be at a higher level now than in previous generations, and what implications are there for that from your suggestions for solutions?

Mr. **Summers**. The beginning of wisdom on this subject is that economists explain the fluctuations in the structural unemployment rate only with hindsight.

Representative **Lungren**. That is why we invite a lot of economists, so we have a lot of different hindsights.

Mr. **Summers**. And so there cannot be any definitive answer. I would mention several factors in roughly decreasing order of importance.

I think the single most important factor is the greater public and private safety nets which exist under the unemployed now relative to before. The increasing generosity of unemployment insurance is the least important of these. In fact, more important to these effects is that many, many more of the unemployed than has been the case in the past are part of multiearner families than used to be the case. They are either young people living at home or working women with employed husbands or unemployed husbands with working wives. As a consequence, the economic stress associated with a period of unemployment, while serious, is less than there was in the past, and therefore they can afford to be more resistant to accepting wage cuts and at the same time can be more choosy in looking for a next job. So increasing rigidity I think is what I regard as probably the single most important factor.

The second factor that has to be counted is the increasing fraction in the population of what have come to be regarded—what we call secondary workers who in all periods tend to have higher levels of unemployment. That, I should say, is likely to reverse itself. The fraction of the population that is in the age group 16 to 19 has already started downward and will decline quite rapidly over the next few years, which suggests we may be lucky enough to observe some decline in the level of structural unemployment.

A third factor which I think has increased the level of structural unemployment through time is the possibility that there is—well, I was going to say a third possibility and the one that Mr. Choate has emphasized, is notions of increasing structural change within the economy, and that is a question not as to whether there is rapid structural change which is associated with unemployment—there certainly is—but whether there is more rapid structural change than there was in the past. And one tends to sense that there is, but it is very difficult to find evidence of that in data. And if you go back and think about it, there really have been vast structural changes of other kinds in the postwar period which are largely coming to an end. The very rapid decline of the fraction of the population that lives and works on farms, the vast migration from the South to the North, the large movement west to California are all features of the early part of the postwar period that are now not major trends.

So the evidence on structural change, if you look at how widely dispersed growth rates of different industries are, or how widely dispersed growth rates of different states are, you do not find clear evidence that there has been an increase in the dispersion of either of those things. So I would list that as a possible factor. I would not list that as a major factor.

A fourth factor I think probably has some role to play—is that the increase in the structural unemployment rate may be a statistical phenomenon associated with some of our programs. The Congress has, which I think in many cases good reason, in a number of welfare programs—food stamps, for example—legislated requirements of work registration.

In many cases, those requirements have not been enforced actively enough successfully to have a great effect on anybody's actual behavior. However, the knowledge that people in food stamps are required to be registered for work and looking for work may induce program beneficiaries who otherwise would have told surveyors that they were out of the labor force to instead report themselves as unemployed, and you would then see an increase in the size of the labor force and an increase in unemployment which was measured.

That, of course, fits the facts of our recent experience which have been dramatic increases in both unemployment and labor force participation.

To that extent, an increase in structural unemployment does not represent the problem. It just represents the fact that we have to interpret our numbers differently than we did before.

Representative LUNGREN. You mentioned as two major elements of the structural unemployment problem the high percentage of the structurally unemployed who are young people as well as those who have been involved with long spells of unemployment which by large measure are in the older category.

You heard Professor Bishop's comments on the reasons for the high percentage of young people who are unemployed. Do you have anything to add to that or do you in fact agree with his comments on that?

Mr. SUMMERS. Well, I would add that the view that the unemployment among young people is all a dynamic turnover phenomenon is again I think a misleading feature of our statistics. We find most spells of unemployment for young people are short. That is not because they find jobs. That is because they withdraw from the labor force.

Two-thirds of spells of unemployment for young people and in your having measured the unemployed this month and not in the labor force next month, and that is true even if you look at teenagers who are not enrolled in school, so you cannot say they are just going back to school. If you make adjustments for that, you find that the dynamic character of youth unemployment is very similar to the dynamic character of unemployment for the remainder of the population, meaning that it is a relatively small fraction of the population who are accounting for a very large part of the unemployment.

So I would add that to the views he had on the problem.

Representative LUNGREN. If we accept Mr. Bishop's suggestion that some of the reasons for the young people having difficulty are that they are less employable than they were in the last few decades as a result I assume of poor education, at least their response to the education they have been given, does that then require us to be more seriously concerned about the ability of these individuals once they start moving through the active labor market to adapt to changed positions? I mean, I assume that if in fact they have got a lower level of basic educational skills, their ability to react to a displaced situation is going to be adversely affected, and is that something that we, as policymakers, have to begin to worry about now rather than later?

Mr. SUMMERS. I think it is not that it is not a good idea to worry about that, but I think I would put that concern relatively low.

Let me make two brief points. First, the average scores on the SAT is a tricky statistic. If more young people take the SAT's and so we go lower and lower into the distribution of young people who are taking the SAT, we will observe a decline in the average of those who take the test, but that will not reflect that the fewer people are learning.

The second more important point is I think that the SAT's measure is not very relevant for the sort of displacement situation that we imagine. The displacement situation we imagine are typically blue collar workers doing jobs that use their hands extensively, and the ability to move from one such job to learn another such skill is likely to be only very, very weakly correlated with the ability to answer a multiple choice test on the new math.

So I would urge the position that the academic skills of young people are an important problem to combat in its own right, but I do not think that that aspect of it presages particular difficulties.

Representative LUNGREN. Let me ask one more question on this round. I have been intrigued by this JTPA program concept. One of the concerns I had was that would we in setting it up have the unintended effect of putting an employer in a situation where rather than calling his employees back most immediately it would be in his economic interest to wait a while until they qualified for the employment subsidy option? It strikes me in your testimony when you mentioned that perhaps we apply this to the FSC, the Federal Supplemental Compensation program, which has rather long-term limits, that we might avoid that problem.

Do you see that as a potential problem.

Mr. SUMMERS. I do see that as a potential problem. Had I described the scheme in more detail, I would have said as I envision the scheme you would make employers ineligible if they simply rehired their workers. If you had a scheme like that in which you started early on, that would be a serious problem because the guy's best chance of getting a job might be thwarted by denying his employer the ability to be subsidized to rehire him. Once you are looking at workers who are out for quite a few months, the prospects that they will be rehired become much smaller. So we are moving the subsidy for their employer is I think a much less serious issue.

I did look at one point at some data on how many people reported themselves on layoff for 6 months and then subsequently were rehired and the answer was only a very small number of people in aggregate. Therefore, I think you would not find that you would be cutting off an important reemployment channel.

Representative LUNGREN. Thank you.

Mr. Bishop, in hearing testimony today and from other witnesses on previous occasions, it appears there are many different groups that everyone suggests are in need of some training. They talk about entry level employees. They talk about skilled jobs with employee shortages They speak of the employed that need their skills upgraded even though they are already working but anticipating a possibility of either their job being discontinued or for whatever reason moving to a different position, and then, of course, those who are displaced.

Since the Government has discovered in recent years, although it has not acted upon this discovery, that we have limited resources, where would you establish priorities? In other words, if Government were only able to direct its attention in an aggressive fashion in programs to one or two of those different groups, where could we most effectively do the job?

Mr. Bishop. I guess I do not want to respond to the question exactly as it is posed because I do not think Government should make choices of that type. I think it may be politically attractive to target one particular group and build a program around that, and when you are designing a JTPA-type program you have got to make those kind of choices, and I think that the title in JTPA that is designed for the dislocated workers is an appropriate response to their problems. But I think I would stress the following; we already subsidize school-provided training a great deal. Nothing, however, is done to promote on-the-job training.

I think if I had to select target for new efforts it would be to devise some mechanism for promoting on-the-job training. There also, of course, ought to be programs to improve the quality of education in schools, but we are not addressing that so much today.

Representative Lungren. Well, in the Government trying to influence on-the-job training, you mentioned the French experience where there is a requirement of a certain amount or percentage of expenditures to go into those types of programs.

Have we come to the point where it is absolutely necessary for us to do that sort of thing? Are there ways of influencing business decisions such that businesses would recognize that they may face critical shortages in skilled occupations, if not immediately in the not too distant future, and that it is in their best interests economically to provide and encourage on-the-job training?

Mr. Bishop. As a group they recognize this need and realize that it is a problem. The problem is that the individual employer finds it cheaper to recruit someone himself. When I can take someone else's employee and put them to work in my firm and make use of the training that employee has, that is general training. When training is general economic theory tells us that the employee should have paid for it because he is going to be the main beneficiary of it. Our research suggests that the wage differential for people being trained is just too low, too small relative to the trained person, to be paying for the general training that the workers are receiving. In addition most employers report that most of the training they are giving is general. It seems that contracts are being written in which the employer takes a risk on a person when they first hire them and provides and pays for general training. When this is the case, the employer underinvests in training.

Our preliminary data suggest the rates of return on this training are extremely high. The rate of return on schooling are on the order of 5 to 8 percent for college. I would estimate the rates of return on on-the-job training are certainly about 20 percent. The private rate of return and social rates of return would be higher.

Representative **Lungren**. Mr. Choate, on your concept of the individual retirement account, would you allow under your concept a laidoff employee who has not contributed the maximum or accumulated a maximum balance in their account to utilize those funds? How could it work? Do they have to have worked for a period of time, so many quarters, to be able to contribute to that before they are eligible to use those funds?

Mr. **Choate**. It could be done one of two ways. One way would simply be to modify the laws on IRA's and an individual would have that which they had built up and that would be the amount. If they had built up $2,000, that would be $2,000. If they had built up $4,000, they would have $4,000.

Another variant of that would be to operate it as a combination of insurance and equity building system. In other words, part of the contribution would be to insurance a pool of the fund that would guarantee the moment they were unemployed after they had reached a certain investing period, 6 or 9 months or some period, then they could draw down the full amount, the full $4,000, like again in insurance. Over time as they would contribute money to the fund they would build up an equity until they got to some point at which they would have to make no further contributions. So it could be done either way.

Representative **Lungren**. What about implementing it within the unemployment insurance concept, that giving the laidoff or fired employee the opportunity to say that he qualifies for 6 weeks more payments—let us say 12 weeks more payments and he can exercise an option in which he can use half of those funds to assist him for training and then, of course, the rest of the funds only give him benefits for his own sustenance for 6 more weeks?

Mr. **Choate**. I would not do that. Those UI funds are in great difficulty already. I think the Department of Labor is projecting that 35 of those State funds are insolvent already.

I would however, if I took the latter route create a third trust fund, and have that fund stand on its own 2 feet, but I would link it to the other two funds. I would say, in effect, that a worker if they are going to continue to draw extended or supplemental benefits after 26 weeks, would have to actively use their ITA. In other words, what you are really trying to do is speed the process along, bring the worker to face the reality of their circumstances, and perhaps equally important, try to cut down the amount of funds that are being expended on UI which I understand this year is going to be over $31 billion. So I would link them.

Representative **Lungren**. Do you have some observations on that, Professor Summers?

Mr. **Summers**. Yes, I do; I think it is important to understand people are unlikely, if you give them the option between cash in their pockets and training, to take the training. And, in particular, they always have the option of collecting unemployment insurance now and going out and purchasing some training and they do not seem to do that.

I wanted to make a point, if you have a moment, on this general issue of do we have too little training; are we encouraging training enough? I think there is a sense in which we currently encourage training a great deal, and this is easily recognized. The two kinds of investment firms do—they do investments in physical capital and they/do investments in human capital. Both are investments to be made in 1 year that pay off over a stream of years.

Investments in physical capital have to be depreciated for tax purposes over a large number of years, a smaller number of years than was once the case, thanks to ACRS, but you are required to amortize those expenses over a number of years, so you do not have full writeoff of those investments in the first year.

On the other hand, investments in human capital, one gets a writeoff in the first year. Those are things required to depreciate your investments in the on-the-job training of your workers. That means that we have a tax system that currently has a large-scale bias. Just how important this bias is can be seen from the furor that surrounds modifications of the accelerated depreciation law in the case of physical capital investments. We have the ultimate accelerated depreciation already for human capital investment, namely the writeoffs.

For that reason, I am inclined to think that the tax system is already very strongly biasing us in that direction and I am much more skeptical of the notion that our solution lies—our salvation lies in a general effort to increase the degree of training.

Training is an activity that we are already subsidizing heavily relative to other forms of investment in the economy. While more training is good, so are more of other kinds of investments, and I am not sure it is desirable to go further down that road.

Representative LUNGREN. Let me just respond to that and then I think the other two gentlemen would like to talk about that.

You say we are already in effect providing incentives for training. Do you also say, however, that we do not appear to be doing the amount of training that is necessary?

Mr. SUMMERS. I think it is very difficult to judge what the amount of training is that is necessary. Prof. Bishop cited a fact which is that workers who were getting trained did not seem to be getting lower wages than the workers who were not getting trained, which is to say they were not willing to accept lower wages in return for the fact that they were getting trained.

There are two interpretations to that. One interpretation is that the workers do not value this training very highly because it is not so valuable and that firms are only doing it because it is heavily tax subsidized and, therefore, workers do not accept lower wages to get it because it is not a valuable fringe benefit, and the latter view would be much closer to mine.

So I do not see that it is clear that more training would be the solution to our problems. Unless we do something that creates different jobs, all the training can do is reallocate the jobs among the fixed stock of people.

Representative LUNGREN. Mr. Bishop.

Mr. BISHOP. I would view the tax system as basically neutral with regard to on-the-job training because it allows expensing. Because expensing is not generally allowed, investment in physical capital is discouraged. To reduce the bias against investment in physical capital, we have 10-percent investment tax credit. When you put the investment tax credit together with the accelerated depreciation rules, the tax treatment of investment with lifetimes of under 7 to 10 years is roughly equivalent to expensing. Only longer lived time investments are discouraged by the tax system.

Now the issue that I am raising is really the contrast between our policies regarding training in firms, toward which the tax system is basically neutral, and training in schools. At a typical community college tuition might be 20 percent of the cost of instruction. Student financial aid is many billions of dollars a year. There are a variety of other ways in which we encourage it. Vocationally specific training in schools is subsidized, the reason is that we believe it produces social benefits that go not just to the individual receiving the training but to other members of the community, this individual's future employer and us as taxpayers.

The same argument can be applied to the benefits of on-the-job training. I make an additional argument with regard to our look at the wage differentials for people being trained versus those who are not trained. A recent study in the Southern Economic Journal looked at the rates of return to various types of training in the Project Talent data and found that on-the-job training and apprenticeship training had consistently positive impact on wage—I am not aware of any studies at the impacts employer provided training on wage rates that did not find large impacts.

In our studies we ask the employers to rate the productivity of their workers. That rating goes up dramatically over time as the individual has more tenure at the firm. People who had previous training either at a school or at another employer are reported to take less time to train and are reported to be more productive even when wage rates are no different.

This evidence suggests to me that the employers are paying part of the cost of the general training their workers receive. We suggest some potential reasons why they might be doing this. The marginal rate of return of employers high as they might be—15 to 20 percent probably—is still lower than the time preference of the individual workers. And so, consequently it is reasonable for the employer to pay a bigger share of the cost of investing in general training and take a bet that the trained worker will stay with the firm.

In addition, there may be a desire on the part of the employer to attract good employees by offering a very attractive wage at the start.

Once the person is at the firm, the wage may have a much smaller impact on whether the employee stays, so the employer will pay experienced workers less than they produce.

From various things along these lines and various contract stories, you can develop and justify a pattern in which employers invest in general training of their workers, and if that is occurring, then there is an externality. Every time a worker leaves, and a large share of these workers do leave, the employer loses money on his investment in training. Ask the head of training at General Electric or any other company, and he will tell you this is a major concern.

Representative **Lungren**. We do a little bit of that up here on the Hill.

Mr. CHOATE. Well, I would like to offer some comments about the effects of taxes on training and, of course, I have a third view which I guess says a lot about the tax system or how quarrelsome economists are. But it is my view that the tax system is set up with a bias against training in firms, and the reason I say this is as follows:

First of all, if we view training investments made by a firm on a year-to-year basis, then I would agree with Prof. Summers. But if one views it in a dynamic set of circumstances over a period of years, I would view it differently. Let me explain why.

If we take a firm and say it is investing $100 million a year in capital activities. After some period of time, irrespective of what route they choose on depreciating that capital investment—accelerated or 5 years or 10 years—and they continue to invest $100 million a year, it is soon going to be like a full pipeline: they are going to soon be depreciating $100 million a year, and most firms that are going to be engaged in training are the institutions that are going to be in business more than 5 or 7 years and thus doing the capital investing.

When you get into that fifth or seventh year—suddenly, most firms are in effect expensing their capital investment.

If that is true, then, they are having a 10-percent investment credit on their capital, in addition to their expensing, plus they have a 25-percent tax credit for R&D over a 3-year historical base.

In addition, there is the disincentive factor. Unlike capital equipment which the firm owns or the copyright or patent they own that is not true for the workers skills.

At a minimum we need to insure that the human capital investment are put on a parity with the physical capital investment.

Representative LUNGREN. I would like to suggest that as one of you commented on the difficulty of getting businessmen to be involved in different tax credit programs because they do not understand the tax code, that if I were a small businessman and I hired three economists to tell me whether it would be in my interest to spend money on training, I would find out that it either is, it really does not make any difference, or it is not. And that is one of the problems I have with utilizing the tax code at times to effect policy changes because we have a tendency to interpret the tax code in different ways based on different advice, depending upon the mood of the Congress and the way they are going to decide in a particular year or who happens to head up the IRS, and I am not trying to denegrate any of your opinions, but I think it does point out one of the problems we have.

Another thing I would like the three of you to address—this was brought up by your most recent comment, Mr. Choate—and that is where you suggest that most of the firms we are talking about that would be dealing in this retraining would be basically large enough to have those type of expenditures. If the data I have seen is correct, a large part of the growth of jobs in this country over the last decade has taken place in small businesses, not in the large businesses, and we in the Congress like to theorize about how we can change people's actions based on grand designs we construct for the tax code or otherwise, but I am trying to think of the average employer, he or she down there trying to make a buck, who has worried not about the dynamics of the next 10 years but worried about whether he or she are going to be in business next year, and one of the problems I have with some suggestions that in order to have increased training we somehow mandate it in one case or another, we mandate expenditures either through a required tax or required implementation of a training program.

That is seen by the small businessman or businesswoman as an additional expense. And I thought all three of you would agree on the fact that we need to increase the stock of jobs in this society as the base. If we do not do that, we can forget about dealing with the structurally unemployed. And I am very fearful of us going in any direction which, although we are aiming at solving the structurally unemployed problem, in fact increases the total number of unemployed because we have restricted the number of jobs that are going to be created to help the economy.

Mr. CHOATE. If I may comment on that, I share those same concerns.

To the question of the tax code and its use to stimulate investment, my point is, of three of the factors of production—capital, technology and worker training—we have tax code incentives to deal with two of the three.

If we are going to really permit balance, I think we need to have it for all three or none. In other words, just keep a level playing field. That would be the first thing.

The second point I would make, at present, at least according to the information developed by the American Society of Training, most of the training is done by the largest firms, at least formal training in this country are done by the largest firms in this country.

Representative LUNGREN. Is not that one of the problems, though?

Mr. CHOATE. It is.

Representative LUNGREN. If we are going to deal with total unemployment——

Mr. CHOATE. Absolutely; I think that is a good argument that he makes and others make. But even there, there is not enough training done.

So, like with the R&D tax credit, because large firms are the ones during most of the research too, it was felt that there was a need for an incentive but also there was a need not to have public money substitute for what they are already doing. So Congress would make a requirement that the tax credit apply only to that increased spending made over their 3-year historical base.

If such a rule for training tax credits were used means that the medium- and small-sized firms who do not do a lot of training, and many of them do not have personnel departments, would have tax bases of zero, so it is a extra incentive for them to invest in training.

But another point that I make, is the Nation should give special assistance to modernizing our public training system, our vocational, technical, and the community colleges, to make sure their training is up to date.

My final point would be, I would not mandate the tax credit program. I would deal with the human capital like we deal with physical capital and our technology; make private investment permissive but give an incentive to take actions. If a firm wishes to do it and it is in their best interest to do it, I think we can presume they will do it. If they do not want to do it, then they should not be mandated to do that.

Of course, the final part of this mosaio of a training strategy is with the individual worker that falls out of the work force because of structural adjustments and displacement. They need the means to get the training, maybe even to relocate, and certainly the information to get back into the work force.

Representative **Lungren**. How valid do you think the analysis is that small- and medium-size firms are not doing much training or retraining?

The reason I ask that is they may not have formal programs, but in order to exist with the workers they have, are perhaps a number of them doing that, but if you ask them, "Are you doing it, where is the evidence of it," you do not have it.

Mr. **Bishop**. We have surveyed thousands of employers and they report they are doing a hell of a lot of training, but generally it is not formal training. In most other studies of employer provided training, call the company and ask who does your training. If the company has a training department there is someone to be talked to, and if there is not a training department there is not. As a result the firms that do not have a training department or some formal organization that is providing training are reported to be during no training. And yet the training always has to occur, especially for new employees. In our study we ask how a particular new employee was trained, was it formal or informal. Of the hours spent in training in the full sample only about 16 percent of the costs of training are for formal training and the rest of it was informal.

Even if our numbers are biased and counting informal time in ways we should not, it still would be the case that the bulk of training is informal, when one counts informal training, small firms are doing almost as much training as large firms.

Representative **Lungren**. I was just reflecting on my own personal experience when I came to a law firm back in California. We were a relatively good sized law firm, but we did not have the formalization of a lot of law firms, so if you would have asked us who were the partners who did the training, people would have looked at you blankly and said, "We do not have time to do that. We practice law here." Yet there was an informal training program that went on and there were other law firms that had designated training partners.

Based on the individuals involved, you may have gotten better or worse training at one firm or the other.

I was just reflecting that other businesses must operate in the same way.

Mr. **Summers**. I think in that regard it is even misleading to think of there being training activities and nontraining activities. I would group computer people in this. Their job is to help me do my research. One of the things they do is run computer programs to process data. They bring me the computer program and it is wrong. I show them how to do it right. Is that training? Well, it is training. They presumably are learning how to do it right so they can do it better next time or do it better than somebody else, but I am doing it in part for their education, but I am doing it mostly so I can get them to produce the numbers that I am looking to have produced.

So I would argue that it is inherently going to be impossible to make these judgments since the vast majority of learning takes place not as something called training but as an inevitable byproduct of being on the job.

Representative **Lungren**. I know that at least one of you has to leave to catch an airplane. I want to thank all three of you for appearing before this committee. One of the reasons I did not ask some of the specific questions about some of the specific proposals is your written statements cover that pretty well and I did not want to repeat that. It will be made a part of the record and we will go over it in some detail.

Again, I just want to thank all three of you for the seriousness of your effort and for helping us to try and deal with these problems. Thank you. The committee stands adjourned.

[Whereupon, at 11:50 a.m., the committee adjourned, subject to the call of the Chair.]

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